[H.A.S.C. No. 101-11]

HEARINGS

ON

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 1990—H.R. 2461

AND

OVERSIGHT OF PREVIOUSLY AUTHORIZED PROGRAMS

BEFORE THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIRST CONGRESS
FIRST SESSION

READINESS SUBCOMMITTEE HEARINGS
ON

TITLE III—OPERATION AND MAINTENANCE

HEARINGS HELD
FEBRUARY 22, 23, 28, MARCH 1, 2, 7, 8, 9, 14, 15, 22, 23, APRIL 12, 19, 27, AND MAY 3, 1989

U.S. GOVERNMENT PRINTING OFFICE
98-274 WASHINGTON : 1989

H201-76

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

READINESS SUBCOMMITTEE

EARL HUTTO, Florida, *Chairman*

MARVIN LEATH, Texas
ROY DYSON, Maryland
RICHARD RAY, Georgia
SOLOMON P. ORTIZ, Texas
H. MARTIN LANCASTER, North Carolina
JAMES H. BILBRAY, Nevada
JOHN TANNER, Tennessee
MICHAEL R. McNULTY, New York

JOHN R. KASICH, Ohio
DAVID O'B. MARTIN, New York
ROBERT K. DORNAN, California
JOEL HEFLEY, Colorado
RONALD K. MACHTLEY, Rhode Island

WILLISTON B. COFER, Jr., *Professional Staff Member*
MICHAEL A. WEST, *Professional Staff Member*
JAMES C. WATERS, *Professional Staff Member*
EDWARD J. HOLTON, *Professional Staff Member*
KATHLEEN A. LIPOVAC, *Staff Assistant*
PEGGY COSSEBOOM, *Staff Assistant*
DIAL DICKEY, *Staff Assistant*
STEPHEN O. ROSSETTI, Jr., *Fellow*

CONTENTS

CHRONOLOGICAL LIST OF HEARINGS

1989

Page

Wednesday, February 22 (Consideration of Management and Censorship Issues of Stars and Stripes Newspapers) 1

Thursday, February 23 (Army Guard and Reserve Readiness) 129

Tuesday, February 28:

  (Overview of the Defense-wide O&M Accounts) 175

  (DOD Civilian Management) 243

Wednesday, March 1 (Defense Personnel Support Center) 389

Thursday, March 2 (Unified Commands (CINC)) 505

Tuesday, March 7 (Navy/Marine Corps O&M) 671

Wednesday, March 8 (DOD Investigators and Service Auditors) 741

Thursday, March 9 (Air Force Guard and Reserve and Navy/Marine Corps Guard and Reserve) 931

Tuesday, March 14 (Special Operations Forces O&M Budget Review) 1081

Wednesday, March 15:

  (Air Force O&M) 1125

  (Army O&M) 1251

Wednesday, March 22 (Navy Aircraft Depot Maintenance) 1291

Thursday, March 23 (Growth in Army Inventories) 1353

Wednesday, April 12 (To Review Military Quality of Life) 1463

Wednesday, May 3 (Revised Budget Review) 1603

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Hefley, Hon. Joel, a Representative from Colorado 2, 130, 1126

Hutto, Hon. Earl, a Representative from Florida, chairman, Readiness Subcommittee 1, 129, 175, 243, 389, 505, 671, 741, 931, 1081, 1125, 1251, 1291, 1353, 1463, 1603

Kasich, Hon. John R., a Representative from Ohio, ranking minority member, Readiness Subcommittee:

  Statement 2, 130, 1126

  Prepared statement 177, 244, 390, 506, 742, 931, 1082, 1292, 1354, 1464, 1625

Machtley, Hon. Ronald K., a Representative from Rhode Island 176, 1353

Martin, Hon. David O'B., a Representative from New York 672

PRINCIPAL WITNESSES WHO APPEARED IN PERSON OR SUBMITTED WRITTEN STATEMENTS

Arthur, Vice Adm. Stanley R., USN, Deputy Chief of Naval Operations, Logistics:

  Statement 673

  Prepared statement 674

Berteau, David J., Deputy Assistant Secretary of Defense (Resource Management and Support), Department of Defense:

  Statement 326

  Prepared statement 328

Binnicker, Chief Master Sgt. of the Air Force James C., United States Air Force:

  Statement 1531

  Prepared statement 1532

Brackett, Dewey W., Editor, Pacific *Stars and Stripes* 83

Page
Brown, Hon. June Gibbs, Inspector General, Department of Defense:
  Statement 742
  Prepared statement 746
Butler, Maj. Gen. George L., (USAF), Vice Director for Strategic Plans and Policy, Joint Chiefs of Staff:
  Statement 330
  Prepared statement 341
Carson, Lt. Gen. W.G., Jr., USMC, Deputy Chief of Staff, Installations and Logistics:
  Statement 693, 1625
  Prepared statement 695
Cook, Col. Jeffrey M., Commander and Editor-in-Chief of the European *Stars and Stripes*:
  Statement 49
  Prepared statement 51
Cox, Maj. Gen. Hugh L., III, U.S. Air Force, Deputy Commander in Chief, Special Operations Command:
  Statement 565
  Prepared statement 567
Davis, Richard A., Director, Army Issues, U.S. General Accounting Office:
  Statement 131, 1355
  Prepared statement 135, 1360
DeMayo, Rear Adm. Peter, U.S. Navy, Deputy Assistant Commander for Aviation Depots, Naval Air Systems Command:
  Statement 1293
  Prepared statement 1295
Dennis, Edward S.G., Jr., Assistant Attorney General, Criminal Division:
  Statement 390
  Prepared statement 395
Duke, Carolyn, Budget Analyst, Section 6 Schools, Department of Defense 202
Ferber, Martin M. Senior Associate Director, National Security and International Affairs Division, General Accounting Office:
  Statement 3
  Prepared statement 6
Finan, Brig. Gen. John L., Director of Budget Operations, Department of the Air Force:
  Statement 1622
  Prepared statement 1623
Flinn, John A., Director of Operations, Office of the Department of Defense Comptroller:
  Statement 179, 1603
  Prepared statement 184, 1605
Gates, Sgt. Maj. of the Army Julius W., United States Army:
  Statement 1544
  Prepared statement 1546
Hart, William E., Deputy Assistant Secretary of Defense, Public Affairs, U.S. Department of Defense 27
Hutchens, Timothy, Former Executive Editor of Pacific *Stars and Stripes*:
  Statement 73
  Prepared statement 77
Jones, Lt. Gen. Donald W., Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy:
  Statement 1464
  Prepared statement 1469
Killey, Brig. Gen. Philip G., Director, Air National Guard:
  Statement 952
  Prepared statement 954
Lagomarsino, Bartley, Ph.D., Department of Defense Dependents Schools:
  Statement 202
  Prepared statement 205
Leland, Lt. Gen. Edwin S., Chief of Staff, Army, European Command:
  Statement 530
  Prepared statement 532
Looney, Maj. Gen. Edmund P., Jr., USMC, Assistant Deputy Chief of Staff for Manpower and Reserve Affairs for Reserve Affairs:
  Statement 1013
  Prepared statement 1014

Page
McCall, Lt. Gen. James F., Comptroller, U.S. Army:
  Statement 1251
  Prepared statement 1252
McCausland, Lt. Gen. Charles, USAF, Director, Defense Logistics Agency:
  Statement 195
  Prepared statement 197
Montgomery, Col. Edwin J., Jr., Commander and Editor-In-Chief, Pacific *Stars and Stripes* 55
Moore, Maj. Gen. Royal N., Jr., U.S. Marine Corps, J-3, Pacific Command:
  Statement 506
  Prepared statement 509
Murray, Maj. Gen. Charles M., Director of Supply and Maintenance, Office of the Deputy Chief of Staff for Logistics, Department of the Army:
  Statement 1400
  Prepared statement 1407
Piatak, Maj. Gen. John R., Army, J-5, Transportation Command:
  Statement 606
  Prepared statement 609
Pope, Barbara Spyridon, Deputy Assistant Secretary of Defense (Family Support Education and Safety): Prepared statement 1469
Porter, Maj. Gen. William J., United States Air Force, Director of Resources, J-8, Special Operations Command, Department of Defense:
  Statement 1092
  Prepared statement 1094
Reed, William H., Director, Defense Contract Audit Agency:
  Statement 816
  Prepared statement 821
Rizer, Jordan E., Director, Armed Forces Information Service:
  Statement 29
  Prepared statement 31
Robles, Brig. Gen. Josue, J., Assistant Director for Operations, Army Budget Office:
  Statement 1612
  Prepared statement 1613
Russ, John M., Deputy Assistant Secretary of Defense (Resources), Office, Assistant Secretary of Defense (Special Operations/Low Intensity Conflict):
  Statement 1083
  Prepared statement 1087
Scheer, Maj. Gen. Roger P., Chief, Air Force Reserve:
  Statement 932
  Prepared statement 934
Shaffer, Richard L., Auditor General, Department of the Navy:
  Statement 860
  Prepared statement 863
Sherbo, Paul, Former Assistant Managing Editor for News at Pacific *Stars and Stripes* 82
Sikes, Master Chief Machinist's Mate Lewis M., Jr., Fleet Master Chief, U.S. Atlantic Fleet, U.S. Navy:
  Statement 1554
  Prepared statement 1556
Smith, Rear Adm. F.N., Director of Naval Reserve:
  Statement 998
  Prepared statement 1000
Sommers, Sgt. Maj. David W., Sergeant Major of the U.S. Marine Corps:
  Statement 1572
  Prepared statement 1573
Vander Schaaf, Derek J., Deputy Inspector General, Department of Defense:
  Statement 244
  Prepared statement 254
Voorhees, Maj. Gen. John H., USAF, Commander, Defense Personnel Support Center:
  Statement 413
  Prepared statement 416
Walsh, Rear Adm. Raymond M., Director, Operations Division, Office of Budget and Reports, Department of the Navy:
  Statement 1616
  Prepared statement 1617

Page

Watts, Lt. Gen. Claudius, III, Comptroller, U.S. Air Force:
  Statement 1126
  Prepared statement 1127

DOCUMENTS SUBMITTED FOR THE RECORD

Improving the Uniform Procurement Process—A report for the Under Secretary of the Army 480
Office of the Inspector General Inspections—Final Report 782
Department of the Navy Report—The Effectiveness of the Naval Audit Service 870

I

101st CONGRESS
1st Session

H. R. 2461

To authorize appropriations for fiscal years 1990 and 1991 for military functions of the Department of Defense and to prescribe military personnel levels for such Department for fiscal years 1990 and 1991, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

May 24, 1989

Mr. Aspin (for himself and Mr. Dickinson) (both by request) introduced the following bill; which was referred to the Committee on Armed Services

---

A BILL

To authorize appropriations for fiscal years 1990 and 1991 for military functions of the Department of Defense and to prescribe military personnel levels for such Department for fiscal years 1990 and 1991, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Department of Defense Authorization Act, 1990/1991".

* * * * * * *

TITLE III—OPERATION AND MAINTENANCE

SEC. 301. OPERATION AND MAINTENANCE FUNDING.

(a) FISCAL YEAR 1990.—Funds are hereby authorized to be appropriated for fiscal year 1990 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for expenses, not otherwise provided for, for operation and maintenance, in amounts as follows:

For the Army, $23,708,600,000.
For the Navy, $25,954,600,000.
For the Marine Corps, $1,716,300,000.
For the Air Force, $22,812,200,000.
For the Defense Agencies, $8,021,600,000.
For the Army Reserve, $861,900,000.
For the Naval Reserve, $980,000,000.
For the Marine Corps Reserve, $77,400,000.
For the Air Force Reserve, $1,004,600,000.

For the Army National Guard, $1,870,200,000.

For the Air National Guard, $2,041,200,000.

For the National Board for the Promotion of Rifle Practice, $4,700,000.

For the Defense Inspector General, $94,749,000.

For the Court of Military Appeals, $4,000,000.

For Environmental Restoration, Defense, $517,800,000.

For the Goodwill Games, as provided in section 305 of the National Defense Authorization Act, Fiscal Year 1989 (Public Law 100–456; 102 Stat. 1949), $14,600,000.

For Humanitarian Assistance, $13,000,000.

(b) FISCAL YEAR 1991.—Funds are hereby authorized to be appropriated for fiscal year 1991 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for expenses, not otherwise provided for, for operation and maintenance, in amounts as follows:

For the Army, $24,876,900,000.

For the Navy, $27,287,800,000.

For the Marine Corps, $1,775,500,000.

For the Air Force, $23,545,100,000.

For the Defense Agencies, $8,318,900,000.

For the Army Reserve, $902,600,000.

For the Naval Reserve, $1,017,000,000.

For the Marine Corps Reserve, $79,400,000.

For the Air Force Reserve, $1,041,300,000.

For the Army National Guard, $1,896,300,000.

For the Air National Guard, $2,160,700,000.

For the National Board for the Promotion of Rifle Practice, $5,600,000.

For the Defense Inspector General, $96,559,000.

For the Court of Military Appeals, $4,200,000.

For Environmental Restoration, Defense, $519,900,000.

For Humanitarian Assistance, $13,000,000.

SEC. 302. WORKING CAPITAL FUNDS.

(a) FISCAL YEAR 1990.—Funds are hereby authorized to be appropriated for fiscal year 1990 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for providing capital for working-capital funds, in amounts as follows:

For the Army Stock Fund, $107,600,000.

For the Navy Stock Fund, $223,400,000.

For the Air Force Stock Fund, $339,300,000.

For the Defense Stock Fund, $104,100,000.

(b) FISCAL YEAR 1991.—Funds are hereby authorized to be appropriated for fiscal year 1991 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for providing capital for working-capital funds, in amounts as follows:

For the Army Stock Fund, $141,500,000.

For the Navy Stock Fund, $232,100,000.

For the Air Force Stock Fund, $319,600,000.

For the Defense Stock Fund, $156,300,000.

SEC. 303. DEPARTMENT OF DEFENSE BASE CLOSURE ACCOUNT.

(a) FISCAL YEAR 1990.—Funds are hereby authorized to be appropriated for fiscal year 1990 to the Department of Defense Base Closure Account established by section 207(a)(1) of the Defense Authorization Amendments and Base Closure and Realignment Act (Public Law 100–526; 102 Stat. 2631) in the amount of $500,000,000.

(b) FISCAL YEAR 1991.—Funds are hereby authorized to be appropriated for fiscal year 1991 to the Department of Defense Base Closure Account established by section 207(a)(1) of the Defense Authorization Amendments and Base Closure and Realignment Act (Public Law 100–526; 102 Stat. 2631) in the amount of $500,000,000.

* * * * * * *

CONSIDERATION OF MANAGEMENT AND CENSORSHIP ISSUES OF STARS AND STRIPES NEWSPAPERS

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Wednesday, February 22, 1989.

The subcommittee met, pursuant to notice, at 9:32 a.m., in room 2216, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will please come to order.

Today, we look at a matter of utmost importance to our military personnel and to the Nation as a whole. The *Stars and Stripes* Newspapers have a daily circulation of 175,000 and a long tradition of providing information for the military serving overseas. In many areas, it is the only source of information for these dedicated people. These are authorized publications of the Department of Defense whose policy is that a free flow of news and information shall be provided to all military personnel.

The subcommittee has been interested in the *Stars and Stripes* since 1984, particularly when concerns arose about rising appropriated fund costs, and requested a General Accounting Office review of ways to put these newspapers on a more self-sufficient footing. GAO has made several recommendations in this regard, and we look forward to hearing from GAO and the Department of Defense regarding implementation.

It was also in 1984 when the first allegations of censorship surfaced. In 1987 these allegations became more frequent and substantial, and the Congress became concerned that the free flow of news was being impeded. The Fiscal Year 1989 National Defense Authorization Act directed a thorough review of the issue of censorship of these newspapers. Since directing this review, the subcommittee has received further information indicating widespread censorship and management of the news by the military chain of command and others within the newspaper itself.

The subcommittee has learned of many cases where journalists may have been forced to compromise many of the tenets of their profession. Also, several military professionals have been torn between their duties as military officers and as editors. Each in his own right has become casualties of this system.

But the list of those affected is far longer when we consider the millions of military people and their families who may have been denied one of the most important benefits of a democracy. Indeed, one of the most vital tools in the proper functioning of the democratic system is the rights set forth in the First Amendment of our Constitution. It is these people, charged with the defense of this nation, who must know why they will be the first to fight and die for their nation. They are therefore perhaps most entitled to all of the freedoms we hold so dear—the right to a free press and the right to intelligently exercise citizenship responsibilities.

The subcommittee also seeks to determine if censorship exists in other forms of Department of Defense media. We are also here to consider whether the *Stars and Stripes* newspapers are operating in the most efficient and effective manner on behalf of the American taxpayer and their readership.

I believe that in the absence of our ranking minority member, Mr. Kasich, Mr. Hefley has a statement at this time.

Mr. Hefley.

Mr. **Hefley**. Yes, Mr. Chairman. Thank you.

If I might, I would like to read Mr. Kasich's statement that he wanted to present for the record.

STATEMENT OF HON. JOHN KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER (AS READ BY REPRESENTATIVE JOEL HEFLEY, A REPRESENTATIVE FROM COLORADO)

Mr. **Hefley**. I thank you, Mr. Chairman, and I commend you for addressing this very important issue.

The perennial debate over the Defense budget ultimately carries us to military benefits, entitlement, and privileges. Each year, we debate the pay entitlement, medical benefits, the commissary privilege, and a wide range of other programs.

But this is the first time that I believe the Committee has had to wrestle with a right, a constitutional right. I am astonished to learn that this situation has been allowed to come to the point where the United States Congress must remind the Department of Defense that our military people have the right to a free press. If these allegations of censorship are true, and they appear to be, I see no difference between this censorship and tampering with the ballot box.

During these modern times, when there is an abundance of newspapers available to our military overseas and when network news is instantly beamed into the barracks, I find it hard to believe that military leaders would risk their credibility in an effort to manage the news and keep information from our men and women in uniform. These allegations have already harmed the credibility of these newspapers. Frankly, if we can't figure out a way to restore credibility, then I wonder if we should ask the American people to continue to subsidize a censored publication.

Mr. Chairman, the General Accounting Office has made several recommendations that could save the taxpayers over $5 million each year. I understand a Department of Defense study has recommended further cost-saving measures. I look forward to hearing about these initiatives.

Mr. Chairman, these newspapers get their name from the American flag, a flag that stands for freedom. I certainly hope that they are worthy to bear this name.

I am very interested in hearing from today's witnesses about how this situation was allowed to reach this point and what we are going to do about any censorship, and whether these newspapers are being efficiently managed.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Hefley.

Our first witnesses this morning are from the General Accounting Office.

Mr. Martin M. Ferber is the Director of Manpower and Logistics Issues, National Security and International Affairs Division. He is accompanied by Mr. John Harper, Group Director, and Mr. William Wood, Senior Evaluator.

Good morning, gentlemen.

Mr. Ferber, it's good to see you again. We have benefited from your testimony in the past and I am sure that we will do so again today. So you may proceed as you see fit.

STATEMENT OF MARTIN M. FERBER, DIRECTOR, MANPOWER AND LOGISTICS ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE

Mr. FERBER. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, we are pleased to be here today to discuss two U.S. General Accounting Office reviews of the *Stars and Stripes* newspapers. Our first review, done at the request of this subcommittee, analyzed the operations and management of the organizations that publish the newspapers. Our report described how the organizations could be managed and operated in a more cost-effective manner.

We did our second review pursuant to a requirement in the Defense Authorization Act for fiscal years 1988 and 1989. It involved investigating allegations of censorship, news management, and command influence at the *Stars and Stripes* newspapers. Our report on that investigation described built-in cultural conflicts between the military and the media that led to the allegations.

It is important to understand that the *Stars and Stripes* newspapers are published by separate organizations in Germany and Japan. The two papers are authorized publications of the Department of Defense whose policy is that a free flow of news and information be provided to all military personnel without censorship and news management.

The papers have a dual mission. The first mission is civic in nature. It is to provide stateside news to help DOD personnel intelligently exercise citizenship responsibilities and to improve morale and readiness. The second mission is military in nature. It is to provide DOD, command, and local news to improve capability for mission accomplishment.

According to the Director of the American Forces Information Services, the first mission requires *Stars and Stripes* to be like a commercial paper that carries news protected by the First Amendment of the Constitution. The second mission requires them to be like command newspapers that carry company news.

The organizations that publish the *Stars and Stripes* engage in several revenue-producing activities in order to subsidize the price of the newspapers and to expand and modernize their operations. The largest of these activities is the resale of books and periodicals. In addition, each receives revenues from advertisements placed in their newspapers and some appropriated fund support.

At the subcommittee's request, we reviewed the possibility of consolidating the management and operations of the two papers. Interest in consolidation resulted from the papers' substantial increase in appropriated fund support, which grew from $3.7 million in 1977 to about $9 million in 1984, and because of the financial difficulties experienced by the Pacific paper.

We found that DOD had previously determined that consolidation was feasible but had chosen to resolve the financial difficulties in other ways. One of the major alternatives to consolidation that DOD adopted was to authorize the newspapers to use more appropriated fund support.

We concluded that *Stars and Stripes* organizations are resale and revenue-producing activities, like commissaries and exchanges and, as such, the amount of appropriated fund support they receive should be minimized. We found that the need for the support could be reduced or eliminated if management and editorial functions of the two papers were consolidated in the United States. However, DOD has chosen to maintain the separate entities.

I would like now to briefly discuss our recent investigation of allegations of censorship and news management by military commanders of *Stars and Stripes* newspapers. We investigated over 200 allegations and performed an analysis of how the news printed in the *Stars and Stripes* compared to the wire services' stories they had available to print. We also worked with the Society of Professional Journalists, Sigma Delta Chi, to make distinctions between routine editorial judgments and censorship.

We found that DOD, through its instructions, intended to provide *Stars and Stripes* with protection against censorship and command influence, but it has not entirely accomplished this objective. Trying to simultaneously execute the *Stars and Stripes* dual mission creates an inherent conflict between civilian journalists who must execute the First Amendment mission and commanders who must execute the military mission. Different expectations by these groups are the primary reason allegations of censorship exist.

We also found that the content of the news covered in *Stars and Stripes*, compared to the wire service from which the news was drawn, was consistent with the allegations we investigated.

According to the Society of Professional Journalists, evidence of censorship and inappropriate news management was conclusive at *Stars and Stripes* in the Pacific but inconclusive for the European paper. The Society emphasized that it viewed the military editor-in-chief of the Pacific paper as a loyal public servant struggling to resolve conflicting duties as an officer and editor. We agree with that view and believe he acted within the authority of the DOD instruction.

We concluded that both DOD missions for *Stars and Stripes* newspapers individually are worthy pursuits. However, when commingled, they create an inherent conflict. The conflict has been exacerbated by the current instruction governing newspapers, which now directs that editorial policy shall be designed to improve mission execution, rather than to emphasize subjects of interest to the readership, which the previous instruction emphasized.

The current instruction also includes a provision widely interpreted as prohibiting investigative reporting and requires each paper to have an advisory board chaired by a command public affairs officer.

We recommended that guidance be issued providing that *Stars and Stripes* have a civilian editor-in-chief and a policy that emphasizes subjects of interest to the readership. In addition, we recommended that the guidance state that military officers shall not attempt to influence the news content, that investigative reporting be allowed, and that a content analysis be done periodically to ensure that U.S. troops in two different parts of the world are exposed to approximately the same news from back home.

DOD did not agree that its instruction was the cause of the conflict. It maintained that misunderstandings of the mission definitions by civilian employees of *Stars and Stripes* were the causes for the conflicts. However, in December 1988, DOD began a year-long review of its policy instruction. DOD stated that during this review it would reevaluate the dual mission and our recommendation for a civilian editor-in-chief.

Mr. Chairman, although DOD does not believe its dual mission and resulting instruction for *Stars and Stripes* creates problems, we believe they result in the issues and conflicts in both reviews we were asked to do. During our first review, we concluded that the *Stars and Stripes* organizations were resale and revenue-producing activities, and therefore the appropriated fund support to these activities should be minimized. DOD's position is that the newspapers serve a military purpose and therefore should receive needed appropriated fund support.

If *Stars and Stripes* are to be viewed as command newspapers carrying news selected and edited by DOD officials, questions arise about the propriety of (1) selling the papers to those who should be receiving command information, and (2) carrying advertising that places a Government publication in competition with the private sector. In addition, in a command newspaper, allegations of censorship by military officials would not apply.

On the other hand, if *Stars and Stripes* are to be viewed as First Amendment newspapers, they should be allowed to sell advertising, should not receive Government subsidies, and should have civilian editors-in-chief.

It is not realistic to expect *Stars and Stripes* to have one of these missions to the exclusion of the other. Rather, the inherent conflict needs to be acknowledged and managed by DOD.

Mr. Chairman, that concludes my prepared statement and we'll be happy to answer any questions.

PREPARED STATEMENT OF MARTIN M. FERBER

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss two U.S. General Accounting Office reviews of the Stars and Stripes newspapers. We did the first review at the request of this Subcommittee. It involved analyzing the operations and management of the organizations that publish the newspapers. Our report on that analysis described how these organizations could be managed and operated in a more cost-effective manner.[1]

We did the second review pursuant to a requirement in the Defense Authorization Act for fiscal years 1988 and 1989. It involved investigating allegations of censorship, news management, and command influence at the Stars and Stripes newspapers. Our report on that investigation described built-in cultural conflicts between the military and the media that led to the allegations. It also contained recommendations for better managing those conflicts.[2]

BACKGROUND

The Stars and Stripes newspapers are published by separate organizations in Germany and Japan. The two papers are authorized publications of the Department of Defense (DOD), whose policy is that a free flow of news and information be provided to all military personnel without censorship and news management.

---

[1] GAO/NSIAD-86-104, "STARS AND STRIPES--Appropriated-Fund Support Should Be Reduced," May 1986.

[2] GAO/NSIAD-89-60, "STARS AND STRIPES--Inherent Conflicts Lead to Allegations of Military Censorship," December 1988.

The papers have a dual mission. The first mission is civic in nature. It is to provide stateside news to help DOD personnel intelligently exercise citizenship responsibilities and to improve morale and readiness. The second mission is military in nature. It is to provide DOD, command, and local news to improve capability for mission accomplishment. According to the Director of the American Forces Information Services, who is responsible for policy oversight of the newspapers, the first mission requires Stars and Stripes to be like a commercial paper that carries news protected by the First Amendment to the Constitution. The second mission requires them to be like command newspapers that carry "company" news.

The organizations that publish the Stars and Stripes engage in several revenue-producing activities in order to subsidize the price of the newspapers and to expand and modernize their operations. The largest of these activities is the resale of books and periodicals. Each organization also operates a shop that prints military unit newspapers and does commercial printing for authorized users. In addition, each receives revenues from advertisements placed in their newspapers and some appropriated fund support.

REVIEW OF MANAGEMENT AND OPERATIONS

At the Subcommittee's request, we reviewed the possibility of consolidating the management and operations of the two papers. Interest in consolidation resulted from the papers' substantial increase in appropriated fund support which grew from $3.7 million in 1977 to about $9 million in 1984 and because of the financial difficulties experienced by the Pacific paper.

We found that DOD had determined that consolidation was feasible, but had chosen to resolve the financial difficulties in other ways. One of the major alternatives to consolidation that DOD adopted was to authorize the newspapers to use more appropriated fund support. We concluded that the Stars and Stripes organizations are resale and revenue-producing activities (like commissaries and exchanges) and, as such, the amount of appropriated fund support they receive should be minimized. The appropriated fund support to the papers amounted to about $9 million in fiscal year 1984. We concluded that the need for this support could be reduced or eliminated if management and editorial functions of the two papers were consolidated in the United States. DOD has chosen to maintain the separate entities.

REVIEW OF CENSORSHIP ALLEGATIONS

I would like now to briefly discuss our recent investigation of allegations of censorship and news management by military commanders of Stars and Stripes newspapers. Additional details on the findings from our investigation are included at Attachment I to this statement.

We investigated over 200 allegations and performed an analysis of how the news printed in the Stars and Stripes compared to the wire services' stories they had available to print. We also worked with the Society of Professional Journalists, Sigma Delta Chi, to make distinctions between routine editorial judgments and censorship.

We found that DOD, through its instructions, intended to provide Stars and Stripes with protection against censorship and command influence, but it has not accomplished this objective. Trying to simultaneously execute the Stars and Stripes dual mission creates an inherent conflict between civilian journalists who must execute the First Amendment mission and commanders who must execute the military mission. Different expectations by these groups are the primary reason allegations of censorship exist.

According to the Society of Professional Journalists, evidence of censorship and inappropriate news management was conclusive at Stars and Stripes in the Pacific but inconclusive for the European paper. The Society viewed the military editor in chief of the Pacific paper as a loyal public servant struggling to resolve conflicting duties as an officer and editor. We agree with that view and believe that he acted within the authority of the DOD instruction.

We also found that military commanders and their representatives in both theaters have attempted to influence the reporting of news. In addition, we found that the content of the news covered in *Stars and Stripes*, compared to the wire services from which the news was drawn, was consistent with the allegations we investigated.

We concluded that both DOD missions for *Stars and Stripes* newspapers individually are worthy pursuits. However, when commingled they create an inherent conflict. The conflict has been exacerbated by the current instruction governing newspapers, which (1) directs that editorial policies should be designed to improve mission execution, rather than to emphasize subjects of interest to the readership, (2) includes a provision widely interpreted as prohibiting investigative reporting, and (3) requires each paper to have an advisory board chaired by a command public affairs officer.

The inherent conflict exists because while one mission is to provide company news, the other mission is to provide news like a newspaper protected by the First Amendment. Because of the allegations, we focused on the First Amendment mission and believe the execution of this mission can be improved.

We recommended that guidance be issued stating that Stars and Stripes have a civilian editor in chief and a policy that emphasizes subjects of interest to the readership. In addition, we recommended that the guidance state that military officers shall not attempt to influence the news content, that investigative reporting be allowed, and that a content analysis be done periodically to ensure that U.S. troops in two different parts of the world are exposed to approximately the same news from back home.

DOD did not agree that its instruction was the cause of the conflict. It maintained that misunderstandings of the mission definitions by civilian employees of Stars and Stripes were the causes for the conflict. However, DOD stated it intended to begin a year-long review of its policy instruction in December 1988. DOD stated that during this review, it would reevaluate the dual mission and the recommendation for a civilian editor in chief.

DOD stated that its primary goal, as always, is to provide DOD personnel and their families overseas the right to a free press under the provisions of the First Amendment.

Mr. Chairman, although DOD does not believe its dual mission and resulting instruction for Stars and Stripes create problems, we believe they result in the issues and conflicts in both reviews we were asked to do. During our first review, we concluded that the Stars and Stripes organizations were resale and revenue-producing activities and therefore the appropriated fund support to these activities should be minimized. DOD's position is that the newspapers serve a military purpose and therefore should receive needed appropriated fund support.

If Stars and Stripes are to be viewed as command newspapers, carrying news selected and edited by DOD officials, questions arise about the propriety of (1) selling the papers to those who should be receiving command information and (2) carrying advertising that places a government publication in competition with the private sector. In addition, the allegations of censorship by military officials would be without merit. On the other hand, if Stars and Stripes are to be viewed as First Amendment newspapers, they should be allowed to sell advertising, should not receive government subsidies, and should have civilian editors in chief.

It is not realistic to expect Stars and Stripes to have one of these missions to the exclusion of the other. Rather, the inherent conflict needs to be acknowledged and managed by DOD.

Mr. Chairman, that concludes my prepared statement and we will be happy to answer any questions.

SUMMARY OF GAO FINDINGS ON CENSORSHIP ALLEGATIONS

We found that DOD attempted to provide Stars and Stripes with additional protection against censorship and command influence in the revised Department of Defense Instruction 5120.4 , "DOD Newspapers and Civilian Enterprise Publications," released in 1984. However, the instruction failed to accomplish that objective because it allowed for stronger military influence in the inherent conflict between the military and the media. In addition, we found that military commanders and their representatives in Europe and the Pacific have attempted to influence the reporting of news. We also found the patterns of news coverage in the Stars and Stripes were consistent with the allegations we investigated.

The Society of Professional Journalists found conclusive evidence of censorship and news management at the Pacific Stars and Stripes, but found the evidence inconclusive for the European Stars and Stripes.

Instruction Added to Inherent Conflicts

The inherent conflicts which exist between the military and the media are institutional and cultural in nature. They result partly from the military's emphasis on control and respect for authority and the media's emphasis on skepticism and competition in breaking a story.

The current DOD instruction governing newspapers allows for a stronger military influence. For example, the instruction states that editorial policies should be designed to improve the ability of personnel to execute the DOD mission, while the previous instruction stated that these policies should be designed to enhance the knowledge of personnel about subjects of interest to them. In addition, the revised instruction added a provision widely interpreted as prohibiting investigative reporting, although such reporting is common on U.S. newspapers from which civilian journalists have been hired. The instruction also requires an advisory board for each newspaper to be chaired by a public affairs officer and to be responsible for evaluating compliance with DOD and command editorial policies.

Command Influence

Through interviews with current and former employees of the papers, we identified a relatively small number of allegations about command influence at Stars and Stripes in Europe and a much larger number in the Pacific. Most of the allegations in Europe involved external influence on specific stories by commanders and their public affairs officers who allegedly caused stories to be withheld or who were untimely and unresponsive to reporters' inquiries. Similar allegations were made in the Pacific, as well as allegations that command influence was exerted in management of personnel and that public affairs officials have attempted to influence reporting on subjects sensitive to host nations.

Pattern of News Coverage Suggests Allegations Are Valid

Our analysis of the stories carried by both newspapers and the major wire services identified differences consistent with the allegations of censorship and news management that we were asked to investigate. Both newspapers ran a lower proportion of stories that presented a negative image of DOD than the wire services had carried. The Pacific paper ran a lower proportion of these negative image stories than the European paper. Of the AP and UPI wire service stories on DOD, 47 percent portrayed a negative image of the military. In comparison, 35 percent of the wire services' military stories published in Europe were negative as compared to 27 percent in the Pacific. Moreover, the Pacific paper omitted 86 American dateline AP and UPI stories about DOD that were run in the European paper; 32 of those omissions portrayed a negative image of the military.

Both papers also ran a small percentage of stories on politically sensitive topics identified in the allegations, but the Pacific paper ran fewer of these stories than did the European paper. In comparison to the European paper, the Pacific paper carried about half as many stories on AIDS and strategic subjects, such as the Strategic Defense Initiative, 27 percent fewer stories on the Iran-Contra affair, and about one-third as many stories on the 1988 election campaign.

Society of Professional Journalists' Views

An advisory panel formed by the Society of Professional Journalists reviewed 45 allegations of censorship and news management involving the Pacific paper and 12 allegations involving the European paper. It also reviewed explanations for actions taken, directives on Stars and Stripes, and commented on a draft of our report.

The panel reported that it did not base its findings of censorship and news management at the Pacific paper on one or two or three examples, nor did it make the assertion lightly. The panel viewed the editor of that paper as a loyal public servant struggling to resolve conflicting duties as a military officer and editor. The panel noted that in too many instances the editorial duties lost and added that, as an agent of the government, the editor in chief has a formal responsibility to uphold the principles of a free press because the DOD policy states that he is specifically forbidden to engage in censorship or news management.

Mr. **Hutto**. Thank you very much, Mr. Ferber.

I believe you said in 1977, the appropriated funds were what, $3.7 million and in 1984 were about $9 million?

Mr. **Ferber**. Correct.

Mr. **Hutto**. Now, if we take inflation into account, how much is that in real dollars? What is the difference roughly? Do you know about what that would be?

Mr. **Ferber**. We didn't actually do that analysis. You would think it would approximately grow from about $3.7 to say about $6, or $6.5 million.

Mr. **Hutto**. You mentioned the consolidation and also the theater news or news from various regions, the Pacific and European. Would the *Stars and Stripes* still be able to cover theater events if it were consolidated and published here in the United States?

Mr. **Ferber**. Yes, Mr. Chairman. We addressed that in our 1986 report. We believe it's feasible for *Stars and Stripes* to be published in the United States and still have either local reporters and public affairs officers that would feed information and stories of a local nature to headquarters for inclusion in the consolidated version.

Mr. **Hutto**. What would be the logistics of this, using satellite and——

Mr. **Ferber**. Yes. Both the *International Herald Tribune* and *USA Today* operate in similar manners. The *International Herald Tribune* is published in Paris and its stories are faxed to remote printing locations. *USA Today* via satellite transmits versions of the paper to both the Pacific and Europe for local printing in those locations. We think the same thing would work for *Stars and Stripes*. They could transmit the information via satellite and still have their printing operations. The savings would result in consolidating the editorial staff and other management functions.

Mr. **Hutto**. You're suggesting that could be done here in Washington, and you would send via satellite the standard wire service stories and then they could put in their theater stories and news from that area?

Mr. **Ferber**. Correct. Either put it in at the theater for printing or transmit stories for inclusion here, and then transmit it back as a single copy to be printed.

Mr. **Hutto**. What you're contending is that this is being done by *USA Today* and other publications?

Mr. **Ferber**. Yes, sir.

Mr. **Hutto**. Why do you think that there were so many allegations of censorship and news management at one paper and not nearly that many at another?

Mr. **Ferber**. We think there are primarily two reasons: I think first you have to look to the general management style in contrast between Pacific and Europe. In Europe, the military commander basically delegated the day-to-day editing and managing of the paper to the civilian editor who has been there for 30 years. In the Pacific, the commander who had been there for the last couple of years took a very hands on role in the day-to-day editing and managing of the newspaper. So in Europe you had a civilian with a journalistic background doing day-to-day editing, and in the Pacific you had a military officer doing it.

The military officer in the Pacific also came on the heels of an editor who was reportedly removed because the Commander was unhappy with what was going on, some of the articles that were being printed in *Stars and Stripes*.

I think the second reason would be the cultural difference between Europe and the Pacific. Europe is closer to us in terms of accepting a free press. The Far East generally has a more controlled media.

Mr. HUTTO. Several of the DOD officials have been critical of the GAO content analysis, saying that it's flawed. Would you respond to that?

Mr. FERBER. Yes, sir. We believe the content analysis is really the only independent way to do a check on the news content of the newspapers. In our report, we describe in detail the procedure we went through and the quality checks we put in. The main criticism that has come is that they said that the wire services that we did our content analysis on were different for the Pacific and Europe. In other words, they made the allegation that the Pacific and Europe received different information and that we used the wire services as a basis for our analysis.

We used only American dateline articles off the wire services that were received by both Europe and the Pacific. When that criticism was raised, we verified that fact with the Associated Press' Vice President for World Services, and UPI's Manager of Corporate and Government Sales. So at the highest level, we verified that that was true.

Also, in some cases where we noticed that both papers picked up the same wire service articles, we found inconsistencies. They tended to be that the Pacific, using the same wire service article, portrayed a more upbeat or more mixed version of some articles while Europe portrayed a more negative version.

What our contents analysis showed was that while 47 percent of the wire service articles conveyed a negative image of DOD in the article, both newspapers had a lesser percent in the articles they ran. Thirty-five percent of the articles run in Europe and 27 percent of the articles in the Pacific conveyed a negative impression.

Mr. HUTTO. I guess some would wonder why the military couldn't have an in-house newspaper, so to speak, like, for example, the school newspaper which often promotes its activities and presents a positive image, especially since our military forces have access to *USA Today* and the international newspapers and so on.

Is that any kind of valid argument?

Mr. FERBER. Well, the military also has what are called command newspapers, that serve that exact function. It's provided free at base level and it conveys command news.

We think that's different than *Stars and Stripes*. *Stars and Stripes* does serve a much broader mission; at the price of 25 cents, it's much more affordable than *USA Today* or *International Herald Tribune* which sell for probably close to a buck overseas. So we think there's definitely a role for *Stars and Stripes* as there is a role for the command newspapers.

Mr. HUTTO. Generally I guess you'd say the command newspapers cover local events and the *Stars and Stripes* have a broader readership and their purpose is to cover all world news, then, like a regular newspaper?

Mr. FERBER. Yes, sir, that's correct. The command newspapers also are one of the mechanisms where you can provide information that the troops have to have because it's given to them free, it's much more widely used, just because it's free rather than sold. We don't believe that *Stars and Stripes* should be a primary vehicle for providing command information that a soldier must have. It is an excellent paper that provides a much broader objective, as you stated.

Mr. HUTTO. Thank you.

Mr. Leath.

Mr. LEATH. Mr. Ferber, is the General Accounting Office aware of the Rosen Commission Study, and if so, what are your impressions of the study?

Mr. FERBER. Yes, sir. The Rosen Commission was a study that was done in response to our 1986 report. At that time, we had made recommendations that the papers be consolidated. We also had a recommendation that the price of the European paper be raised from 15 cents at that time to 25 cents, which was being charged in the Pacific. The price of the paper was immediately raised.

The Rosen Commission was formed to respond to our recommendation of consolidation and look at the whole management and operation of the newspapers. They made many recommendations dealing with the management and operations mainly aimed at increasing revenues and making more efficient operations. Unfortunately, we don't think they seriously considered our recommendation for consolidation.

The Defense Audit Service had made a similar recommendation in 1977 and at that time, also, the response was to do other things rather than consolidate. That's when they first started paying the Japanese local nationals in the Far East out of appropriated funds, and also provided free postage outside of Germany for the newspaper, two benefits that no other MWR activity receives.

Mr. LEATH. In your judgment, do we have any definitive understanding of why they are so opposed to consolidation?

Mr. FERBER. It would be our impression that they're opposed because they believe firmly in the military mission of *Stars and Stripes*. I'm sure they believe firmly in the First Amendment mission, also. But in their comments on our 1986 report, they stressed the mission function of *Stars and Stripes* and it is a theater newspaper and therefore it was entitled to appropriated fund support.

Mr. LEATH. Well, consolidation, though, wouldn't necessarily change that, would it? You could obviously have the paper printed in two different places, have different content, which I assume is what happened with the *Asian Wall Street Journal* and the *Wall Street Journal* that we read here even regionalized to some degree in the United States?

Mr. FERBER. It's a policy issue, but the main thing would be that it would no longer be a paper of the commander in chief in each theater. The commander in chief right now is the publisher of the paper. You have one publisher in the Pacific, one publisher in

Europe. Under consolidation, the publisher would no longer be the theater; the publisher would be the Armed Forces.

Mr. **Leath**. I think maybe you inadvertently lead us to what I was going to ask you next. Is this one of those little turf battles that we see sometimes where the commander doesn't want to give up his recreation centers or newspapers, whatever, even though he may be losing his rear and doesn't know how to operate them?

Is this one of those scenarios in your judgment?

Mr. **Ferber**. I don't know if I would characterize it as a turf battle as much as that it's just for years been viewed as a theater operation and a theater newspaper. Some of the allegations go back to some theater influence but it's really viewed as a——

Mr. **Leath**. Why is it viewed that way? I've read it all over the world, and I don't see anything strikingly different about the one in Tokyo that I read last July as opposed to the one I read in Germany in August.

What's the big deal about the theater that is so strikingly different or that could not be done even if you had a consolidated operation?

Mr. **Ferber**. We don't think there is a difference. I would suggest you ask DOD why it believes firmly that they should be theater newspapers.

Mr. **Leath**. You say that you think consolidation would save about $3 million?

Mr. **Ferber**. In our 1986 report $2.5 million.

Mr. **Leath**. Do you think that maybe has gone up at this point, or?

Mr. **Ferber**. Yes. The $2.5 million figure was based on an update of the 1977 Defense Audit Service report. I think it would have to have gone up, mainly because of the weakness of the dollar overseas. If we would move the paper to the U.S., we wouldn't be paying the housing allowances and the other benefits that are very expensive, especially in Tokyo. Also, we think the consolidation would allow you to reduce the number of editors you have. We would estimate that the benefits would be higher than what we said in 1986.

Mr. **Leath**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Leath.

Mr. Hefley.

Mr. **Hefley**. Thank you, Mr. Chairman. I'm confused, I guess, on this. It seems to me either it is a command bulletin and therefore First Amendment doesn't play a role in it, and it ought to receive subsidy, or it is a newspaper that shouldn't receive subsidy and First Amendment rights ought to take place.

You said that there is a role, that it should play both roles?

Mr. **Ferber**. By DOD instruction, it has both functions. As we pointed out, the instruction prior to the current one emphasized more the First Amendment aspects of it where the new instruction emphasizes more the mission role. The Society of Professional Journalists were very confused and concerned about this dual role, and would like to see it move much toward the First Amendment newspaper.

Again, I would have to defer to DOD to better explain why it has the dual role.

Mr. **Hefley**. If we moved it more and more to a First Amendment newspaper, then would we also reduce or eliminate the subsidy?

Mr. **Ferber**. One of the things DOD would like to do is have more advertising revenue out of the newspaper, but the Joint Committee on Printing has gone very cautiously in allowing DOD to do any advertising. It was initially prohibited from advertising, was given a little leeway and maybe has done a little more than it should, but JCP right now has given it very limited advertising.

If it was a purely First Amendment newspaper, more commercial, then they would be really unlimited in the amount of advertising they could do. The concern with doing more advertising was that there was a whole host of commercial newspapers that compete and were concerned that the Government would be subsidizing a competitor.

Mr. **Hefley**. It seems like we have a hybrid then that is difficult to justify on either basis, and as the Chairman had indicated earlier, with the modern technology we have they can receive *USA Today*, and the only reason why we would have this paper providing regular news would be that it's cheaper. Is that correct?

Mr. **Ferber**. It is cheaper. It's subsidized not only by appropriated funds, but the bookstores that the *Stars and Stripes* run make money, and it's used to subsidize a loss of the newspaper. It's considered a morale and welfare activity for the troops, but it's exactly that dual mission that we thought provides the problems and it's always going to be a concern one way or the other, as long as you have that dual mission. We really felt that that was the cause of the concerns we saw in both our reviews. DOD would disagree with that. They would say, no, that is not the case.

Mr. **Hefley**. In reply to your report of 1988, DOD stated that copies of documents provided to the Journalism panel by GAO were not clear, and material was not sufficient to make a judgment.

Do you agree with that statement?

Mr. **Ferber**. We gave the panel exactly what we had. In some cases, the information we had gotten from the allegators was not clear. We gave the commission what we had. When we were able to get some better information, we also provided that to the panel. We provided the panel the allegation, the information we developed, and the responses by Europe and the Pacific to what the allegations were.

In discussing that with the Chairman of the panel, he said the few cases where the information was unclear had no bearing on their final report and conclusions.

Mr. **Hefley**. One more question. DOD is considering the establishment of ombudsman. What do you think about that?

Mr. **Ferber**. We have no problem with that position. We think that you also need a civilian editor and the ombudsman cannot replace the need for a civilian editor. We would like to see an ombudsman implemented and tried. We also, DOD just gave us their final response to our report, and in there, they said that the ombudsman should consider content analysis as one of the tools he or she uses in their role, so we have no problem with that at all.

Mr. **Hefley**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Hefley.

Mr. Machtley.

Mr. **Machtley**. Mr. Ferber, prior to coming here, I was a lawyer and had the opportunity to study many cases on the issue of censorship, and I understand it is a complex term. Also, I was a military officer and had military training.

I think it's important as we discuss this issue to talk about censorship not in the technical terms but as you might define it. What would be your definition of censorship?

Mr. **Ferber**. Actually, in our report, we let the Society of Professional Journalists come up with the definitions of both censorship and news management, and that's the criteria we used. Not being experts, we relied on them to provide us the criteria.

They define censorship as not selecting a story, killing a story, or removing parts of the story to not provide information under a guise, if you will, of national security.

They define news management as obscuring the news or delaying a breaking story or, in other words, just not providing the truth with the information they should have.

DOD's prior studies of censorship have basically defined censorship as external influence on the newspaper. When they've done a couple studies in the past and they found there was no external influence, they said censorship didn't exist. That definition is different than the Society of Professional Journalists, who I'm sure you're aware we were mandated by Congress to work with.

Mr. **Machtley**. So are you suggesting that the censorship is when it is external and management is when it is internal?

Mr. **Ferber**. No. Going by the criteria that we were given by the Society, censorship as we viewed it was primarily internal. We did look at external too, and that is also censorship. But we went beyond what the other studies have done and looked at the internal management of the editorial function. By the Society's criteria, we viewed that as censorship or news management.

Mr. **Machtley**. By the Society's criteria, would you suggest that there was more external or more internal censorship in this situation?

Mr. **Ferber**. Historically, I should say prior to more recent events, it appeared to be more external. Concerning the censorship that we've discussed over the last couple of years in the Pacific, we only could find maybe one isolated case where it looked like there was an external influence; rather the concept of censorship that we were discussing there deals with the management of the newspaper by the editor-in-chief.

Mr. **Machtley**. Are there any measures which you might suggest that could insulate or protect the civilian editors from the influence of the commanders or the external censorship?

Mr. **Ferber**. The very nature of being a civilian doesn't necessarily provide protection, but we believe that it provides some, more so than having a military officer in that position.

We also made several recommendations at the policy level in our report which we think would help. One was to reemphasize the First Amendment mission. One was to clear up what appears to be, or at least is interpreted as, a prohibition on investigative reporting which greatly bothered the Society of Professional Journalists.

Also one would be to clear up the advisory board which is made up by the public affairs officials in the command and provides guidance to the newspaper. Those were areas of concern especially to the Society.

Mr. MACHTLEY. The discussion earlier was about the Rosen Commission, and we talked about censorship, and we've talked about external versus internal.

I think it's important to get on the record that the Rosen Commission found that the *Stars and Stripes* was fulfilling its mission of providing a balanced presentation of both U.S. and international news. Yet, immediately after the report was issued, the journalists who you've talked about indicated that the evidence of censorship was conclusive. We're not talking about hypothetical, we're talking about your definition which you've accepted of censorship, the Journalists also found it was conclusive.

How do you explain the difference?

Mr. FERBER. First let me discuss our study. Our study was multifaceted. It involved 3 months of field work at both the newspapers. We had our staff in Europe at the European paper, and we had our staff in the Pacific at the Pacific paper. In addition, the three of us made visits.

Second, was the judgments of the panel, made up of five experts, and they included two members who had previously served at *Stars and Stripes*. The panel also included the former and current chairmen of the Freedom of Information Committee of the Society of Professional Journalists and American Society of Newspaper Publishers. There were over 125 years of journalism experience among the panel members. So our field work was one facet, the panel was a second facet.

The third facet, which I discussed earlier, was our independent content analysis which we did totally independent of the other field investigation and the Society. Actually we didn't bring it together until the draft report. Then we gave the Society an opportunity not only to input what they actually found reviewing the allegations, but then also to review our draft report.

The Rosen Commission comment was based on a study done by a journalism professor who was a reserve officer and will assume a position in the Armed Forces Information Services upon mobilization. He interviewed seven staff members, he reviewed some documents, and made a brief visit to the *Stars and Stripes*. His conclusion, similar to a previous censorship study, was that the civilian journalists misunderstood how to report military news in the *Stars and Stripes* environment.

So we think our study was much more in depth and had several cross checks, as compared to the study that the Rosen Commission based its statement on.

Mr. MACHTLEY. Thank you very much, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Machtley.

Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman.

Mr. Ferber, I noticed the cost of the *Stars and Stripes* is 25 cents. Do they charge for all the copies or are many copies complimentary to the troops or how does that work, do you know? Do you happen to know?

Mr. Ferber. I suggest you ask the editors. We believe that they're mostly sold.

Mr. Ray. Did you happen to check to see if the readership and distribution is up, down, or stable during the last few years?

Mr. Ferber. The readership in the Pacific has gone up over the last 15 months, after going down prior to that. I think in Europe the readership has probably stayed static.

Mr. Ray. I see. The distribution of *USA Today* and "C–Span" and other means of communication now has not cut into the readership of it, then? It's still a popular paper?

Mr. Ferber. It's a popular paper and at a quarter, it's very affordable. I read it every chance I get when I'm over there.

Mr. Ray. Well, thank you, Mr. Chairman.

Mr. Hutto. Thank you, Mr. Ray.

Because of the media explosion, I guess you would say, and all the technology we have for transmitting information, you say that the readership is at least maintaining its pace or exceeding it a little.

So my question I guess is there is nothing that really would replace the *Stars and Stripes*, and of course we've heard about this newspaper for a long long time and it seems to be something that our Service people like to read. So you wouldn't recommend cessation of publication or anything like that?

Mr. Ferber. No. I would advocate the continuance of the *Stars and Stripes*. I think that if appropriated fund support is the concern, there may be ways to reduce the appropriated subsidy, and I think to the extent that there are allegations and concerns about censorship, there are ways to alleviate those problems. We've made recommendations in both cases.

Mr. Hutto. Your investigation, you determined that it is necessary for appropriated funds. There's not any way that they could operate on nonappropriated funding through the sale of the newspapers, through advertising, book stores, and that sort of thing?

Mr. Ferber. We believe that the consolidation would reduce the appropriated fund support. The Rosen Commission recommendations addressed increasing revenues. It dealt a lot with the book stores to make the book stores more profitable which is used to subsidize the newspapers. So to the extent they could gain revenues there, they could reduce the appropriated fund support.

Advertising's an issue that is really under the auspices of the Joint Committee on Printing. There has been a continuing dialogue for years on whether or not *Stars and Stripes* can provide more advertising. They would definitely like to and they see that as a way to get revenue that would help offset appropriated fund support.

One other thing that we talked about in our 1986 report was sharing revenues between the two newspapers. At that time, Europe was making profits and the Pacific was losing money but there was no good mechanism for one to share in the profits of the other. We pointed that out in our report. The Rosen Commission did establish a central fund where the revenues of one can flow to help the other, instead of being run as totally separate business entities as was in the past.

There's a big difference between how they handled the book resales and how they compute the book contracts and what have you.

The Rosen Commission did a good job in addressing all those facets of it. Down the road, if they're implemented, it looks like you could gain more revenues and reduce appropriated funds accordingly.

Mr. HUTTO. It's my understanding that the advertising is mostly, I guess exclusively perhaps from the exchanges, the commissaries and that sort of thing?

Mr. FERBER. Most of it. There were cases we pointed out in our 1986 report where under the auspices of being sponsored, for example, by an officer's club, a local merchant could sell items. He would be advertising in the paper, but because he was under the auspices of the officers' club, it sort of met the letter of the law but not necessarily the intent of the law.

I know the Joint Committee on Printing was concerned with that kind of function. The newspapers have just started some personal classifieds, which they'd like to expand. But generally it is via commissaries and——

Mr. HUTTO. Could it be self-supporting if it were contracted out and you had a central publication location and if the *Stars and Stripes* were able to carry national advertising? Is that something that has been looked at?

Mr. FERBER. No. When both us and the Defense Audit Service brought up the issue of consolidation, it has generally not been studied in any detailed implementation plans. They've never agreed, so they've never gone to the point where they've actually looked at the implementation of that. It's our estimate, though, that you could gain enough in savings to make up the appropriated fund support.

Mr. HUTTO. Thank you very much, gentlemen. We appreciate you being here, and we may have some further questions for you to provide answers for the record.

Mr. FERBER. Thank you, Mr. Chairman.

Mr. HUTTO. Thanks very much.

Now we'd like to call forward our next panel. Mr. William E. Hart, Deputy Assistant Secretary of Defense for Public Affairs, and he is accompanied by Mr. Jordan E. Rizer, Director, American Forces Information Service.

Mr. Hart and Mr. Rizer, we welcome you here and look forward to your testimony.

STATEMENT OF WILLIAM E. HART, DEPUTY ASSISTANT SECRETARY OF DEFENSE, PUBLIC AFFAIRS, U.S. DEPARTMENT OF DEFENSE

Mr. HART. Thank you, sir.

I'd like to state on behalf of the Assistant Secretary, Dan Howard, who couldn't be here, we're filling in for him since it's our responsibility in the Office for most of these issues.

Mr. Chairman, we welcome this opportunity to discuss with you the Department's outstanding newspapers, the Pacific and European *Stars and Stripes*. We share the Committee's commitment that all Americans, especially our men and women in uniform, are guaranteed one of our most fundamental freedoms, the freedom of the press.

Let me begin by emphasizing our support for the tremendously important role that both editions of *Stars and Stripes* serve for our troops stationed overseas. For more than 40 years, the news carried in these papers has been their link to home. *Stars and Stripes* is an essential part of their citizenship because it gives them the information they need to exercise another of our previous freedoms, the right of franchise.

For the last four decades, these papers have been remarkable for their scope and objectivity. They carry important domestic and international stories while also catering to items of local interest. We must continue to provide our servicemen and servicewomen with the highest quality product. They deserve no less than our very best and that's what they will continue to receive.

Toward that end, we're constantly reviewing our policies regarding the editorial and financial sides to these newspapers, just as any other organization that publishes a major newspaper does. We have never, nor will we ever, condone explicitly or implicitly the censorship of the news. Our people work very hard to ensure that the integrity of *Stars and Stripes* is maintained at all times.

There are, of course, situations that arise over the extent to which a particular story will appear in print. We strive to make sure that the news is reported accurately, objectively, and as much as is possible, from a balanced and nonsensational perspective. Such is our written policy and our editors are held accountable to that standard.

That is not to say that everyone necessarily agrees, nor should they, on what should be printed. Judgment always plays a part in the publication of a paper. Each editor has the responsibility to judge whether a story meets his or her interpretation of journalistic standards. Disagreement alone over the content of a story is not sufficient grounds to claim censorship.

The editors of both editions of *Stars and Stripes* have at all times acted prudently and within the scope of Department policy. Their task is not unlike that of publishers of other newspapers. They are responsible for both the content of the paper and its financial well being. The combination of these two responsibilities requires that they make judgments which affect the scope of the paper as well as the activities of the people who work on it. These decisions are not always popular but they must be made.

We're here today to ask the Committee to carefully consider the matters discussed, as you've indicated you will, and we're sure you will. I fervently believe that the system we have in place is sound. Changes can and will be made to improve the quality of the *Stars and Stripes*, but there's no reason to change a set of organizational relationships that produces an outstanding newspaper.

A panel of professional journalism society Sigma Delta Chi, after performing an in-depth analysis of *Stars and Stripes*, had this to say, and we quote:

"All the tools are in place for a healthy and vigorous newspaper that military personnel stationed overseas can be proud of . . . On a daily basis our military personnel and dependents are provided journalistically sound newspapers."

It is important to accurately assess the total performance of *Stars and Stripes* so we may objectively determine how we will proceed. Regardless of what our differences may be, let us agree that the first priority must be to continue to provide our military personnel with a first class newspaper.

I want to recognize publicly that we have had a valuable exchange of ideas with the General Accounting Office during the preparation of their report. We did not always agree with their challenges; they did not always agree with our responses. However, the interchange has already benefited the *Stars and Stripes*.

Mr. Chairman, with me is Mr. Jordan Rizer, Director of the American Forces Information service who, in accordance with the Department of Defense Instruction 5120.4, which was coordinated with the Congress, has overall cognizance on matters pertaining to the *Stars and Stripes* for the Assistant Secretary of Defense for Public Affairs.

He has a statement and probably a response to most of your questions.

Mr. HUTTO. Thank you.

Mr. Rizer, you're recognized for your statement. If you will summarize, please?

STATEMENT OF JORDAN E. RIZER, DIRECTOR, ARMED FORCES INFORMATION SERVICE

Mr. RIZER. Yes, sir. I'm giving you a summary because the other statement is in the record and is rather long.

The American Forces Information Service, AFIS, in coordination with the military departments and on behalf of the Assistant Secretary of Defense for Public Affairs, conducts the internal information program of the Department of Defense and Defense audiovisual policy. We communicate with our United States Armed Forces worldwide through the use of electronic and print media. We also exercise several Department of Defense policy functions involving Armed Forces radio and television, audiovisual, printing, and newspaper publication services.

Our primary objective is to ensure a free flow of news and information. This we believe increases the knowledge, professionalism, and pride in service of our soldiers, sailors, airmen, and marines, and our civilians with resultant benefits to the Department of Defense of enhanced morale, retention, and readiness. Historically, when called upon to protect our country, American servicemen have fought harder and smarter because they've understood the basic principles of what they were fighting for. It is in this area of informing the troops that AFIS makes its biggest contribution.

AFIS is composed of both operational and policy elements. One of the operational elements is the Armed Forces Radio and Television Service, AFRTS, which is a worldwide broadcast system that provides a touch of home by bringing news, sports, and information and entertainment programming to more than 1.5 million U.S. military personnel, Department of Defense civilians, and families who are stationed overseas or aboard ships at sea.

Because of a steep decline in the value of the dollar in most of the countries where our troops are stationed, the service members and their families are spending more and more of their off-duty time in their quarters. There's an increasing demand by them for affordable, wholesome entertainment. AFRTS meets this demand with free radio and television service beamed directly into their living areas.

The operational element is the American Forces Press and Publication Service which develops, publishes and acquires Joint-Service internal information printed materials reflecting Department of Defense policy, programs, and procedures. This element also operates the Current News Analysis and Research Service, CNARS.

The AFIS mission for policy and oversight of the DOD newspapers including *Stars and Stripes* is one of the major policy functions on behalf of the Assistant Secretary of Defense for Public Affairs. As you know, two unified commands, the European Command and the Pacific Command, are the owners and operators of the European and Pacific editions of *Stars and Stripes* respectively. The *Stars and Stripes* newspapers, much like AFRTS, provide a low cost touch of home by being the home town newspaper for our thousands of service members and their families stationed overseas. Providing uncensored, international and national news and internal information at an affordable price is the primary objective of the *Stars and Stripes*.

AFIS provides specific policy guidance to the two unified commands regarding the *Stars and Stripes* for business and financial management, the free flow of uncensored news and information, the use of advertising and general operating procedures. Furthermore, the *Stars and Stripes* operate with mostly self-generated funds from newspapers, bookstores, and printing service sales. They are supported by the minimum amount possible of appropriated funds.

In regard to comments of possible news management and censorship, it is the Department of Defense position that even the appearance of such acts is undesirable and harmful. It is imperative that our unified command *Stars and Stripes* newspapers retain their credibility in both their image and reality as viable representative newspapers which provide uncensored news with no news management.

Accordingly, we have agreed to review our directives, to seek ways in which our policies may be improved. We have established a new position of Ombudsman to ensure that the concerns of reporters, editors and readers are properly addressed. To provide issues involving freedom of the press are known to those in authority and that recommendations are made to better defined directives, policies and editorial practices, and agreed to perform content analysis to determine that the *Stars and Stripes* newspapers are reflections of the U.S. commercial newspaper industry.

Mr. Chairman, I share your concerns that the mission of our organizations fulfill both the spirit and intent of their charter, to provide the members of the Armed Forces with the best possible information and news and entertainment.

I appreciate this opportunity today to represent the Department of Defense and the American Forces Information Service.

This concludes my summary of the missions and operations.

PREPARED STATEMENT OF JORDAN E. RIZER

AMERICAN FORCES INFORMATION SERVICE

MISSION STATEMENT

The American Forces Information Service (AFIS), in coordination with the Military Departments and on behalf of the Assistant Secretary of Defense for Public Affairs, conducts the internal information program of the Department of Defense to reach our Armed Forces worldwide through various electronic and print media. We also exercise several Department of Defense policy functions, involving audiovisual, broadcasting, printing, and newspaper publishing services.

Our paramount objective is to ensure a free flow of news and information. This increases knowledge, professionalism, and pride in service with resultant benefits to the Department of Defense of enhanced morale, retention, and readiness. Historically, when called upon to protect our country, American servicemen have fought harder and smarter because they have understood the basic principles of what they were fighting for. It is in this area of informing the troops that AFIS makes its biggest contribution.

The American Forces Information Service is composed of two operational elements. The Armed Forces Radio and Television Service (AFRTS) is a worldwide broadcast system which provides news, sports, information, and entertainment programming to more than 1.5 million U.S. military personnel, Department of Defense civilians, and their families who are stationed overseas and aboard ships at sea. The American Forces Press and Publications Service (AFPPS) develops, publishes, and acquires appropriate joint-Service internal information printed materials reflecting Department of Defense policy, programs, and procedures, and operates the DoD Current News Analysis and Research Service (CNARS).

Our major policy functions are: The development and implementation of policies and procedures pertaining to the management and operation of Armed Forces Radio and Television Service broadcasting outlets, and policies and procedures pertaining to the content, production, publication and distribution of periodicals, Armed Forces newspapers (including Stars and Stripes) and civilian enterprise newspapers; exercising fiscal and manpower control through the Planning, Programming, Budgeting system; approving or revising proposed resource programs; monitoring the implementation of approved programs; administering centralized and automated management information and resource management systems; establishing performance standards and technical specifications for broadcast equipment; certifying specific equipment for Armed Forces Radio and Television use; establishing manning standards for broadcasting activities; acquiring public service and commercial broadcast program materials; developing, coordinating, and supervising policy, standards, and procedures for the management and effective application of visual information and audiovisual resources; and, performing as the Federal executive agent for the Office of Federal Procurement Policy on behalf of the Office of Management and Budget for the administration of the Federal Audiovisual Contract Management Office.

Our organization, through the Armed Forces Radio and Television Service Broadcast Center in Los Angeles, provides a touch of home by supplying radio and television programs to over 100 manned and 900 unmanned military broadcast outlets located in 75 foreign countries, remote areas of Alaska, U.S. Trusts, Territories, and aboard U.S. Navy ships at sea. The satellite service is now available in 53 countries. Our programming is provided 24 hours a day, 7 days a week, using satellite circuits, land lines, undersea cables, and videotapes, audiotapes and disks either on circuits or mailed directly to user stations. Each day this operation furnishes 24 hours of time sensitive, unedited news, sports, and information on both radio and television by satellite.

In addition, each week 178 hours of entertainment programming is provided on videotape, audiotape or disks. Radio and television programs are obtained from the broadcast and entertainment industries at minimal cost to the government. It is only through the full cooperation and patriotism of the motion picture companies, the radio and television networks, program owners, the music industry, and the unions, federations and guilds that these programs can be acquired within our budget. We acquire the rights to distribute over 90 percent of the top-rated entertainment programs presented on American television, and programs such as news and sports are provided gratis. A recent estimate showed that during a one year period we received over $200M of programming for $8M.

Through our American Forces Press and Publications Service (AFPPS) the American Forces Information Service (AFIS) publishes products developed for specific audiences such as: The Press and Art Pack which provides camera ready internal command information material to more than 1500 military editors weekly; Billboard which is a finished internal command information display product; while another product Defense Magazine has a wide readership for policy-level articles; and, Defense Issues ensures that policy-level speeches receive distribution to their target readership.

Other products include approximately 60 internally generated but externally procured publications that are distributed worldwide. These publications cover such functional areas as health affairs and foreign country orientation guides.

An important addition to the AFIS and AFPPS mission is the management of the Current News Analysis and Research Service (CNARS) which produces the high visibility daily (work days only) Current News "Early Bird". This is a clipping service in digest form for executives and senior managers in the DoD, OJCS, Military Departments, Unified and Specified Commands, and military-related entities of Congress, the White House, State Department and the CIA. Included are articles from national and international newspapers, magazines, news wire services, and broadcast news program transcripts that cover topics concerning defense and politico-military issues. CNARS also produces several other compilations that cover lengthy and detailed articles in magazines, and summarize books that concern defense and politico-military issues. Finally, CNARS provides a research service through the use of its extensive library system for news that covers defense and politico-military affairs.

The Defense Audiovisual Policy Office has been active on a range of policy initiatives and management system improvements. Military Service's Combat Camera people deploy with operational forces to provide photographic and video imagery of military activities. By exploiting new still video technologies, we can now provide near real time imagery of U.S. Forces in the field directly to the OJCS, National Command Authority, and Service staffs. In fact, now we can provide quality color images of military actions to the highest levels of government as fast as we can words. Our policy and standards initiatives regarding the emerging interactive videodisk technologies will ensure interoperability of equipment and productions in the DoD and avoid unnecessary costs as these new systems are deployed.

Similarly in the arena of video teleconferencing technology, we are leading actions within the DoD to formulate coherent and effective policies for management of this rapidly expanding and beneficial communications function. Regarding internal information related audiovisual productions, we have recently completed a video entitled "Working for America" to highlight the motivations of our government civilian workforce and which addresses concerns for the future vitality of the Civil Service. Similarly, for the upcoming year key DoD level productions are envisioned to address: 1) Our concerns with professional ethics; and, 2) The priority placement procedures for our employees affected by the anticipated base closures.

The major AFIS operations that are currently financed include: (1) Operation of the Armed Forces Radio and Television Service - Broadcast Center in Los Angeles, California, which includes the acquisition of radio and television programming; (2) The Armed Forces Radio and Television Service Satellite Network and the Armed Forces Satellite Transmission Radio System which provides the means for presenting "real time" news, sports, special major events, and other time sensitive broadcast programming to our worldwide audience; (3) The acquisition of radio and television spot announcements that provide internal/command information in place of commercial advertising which has to be deleted from all programming; (4) The news service contracting, printing, and distribution for the DoD Current News Analysis and Research Service, ; (5) Centralized automated management information system for the control of worldwide Armed Forces Radio and Television Service resources; (6) The acquisition of all Department of Defense joint-Service requested publications; (7) The acquisition of all Department of Defense joint-Service interest internal information audiovisual products;(8) The production or acquisition of printed material for Department of Defense targeted audiences; (9) Oversight of Department of Defense publications, and civilian-enterprise, Armed Forces, and Stars and Stripes newspapers. Other operations financed are the management of statutory programs such as: the Department of Defense audiovisual program which includes reports required by Congress; Automated Data Processing support; management of print and publication policy to include OMB mandated annual reductions in periodicals and printing of over $20 million; the administration of international agreements to include radio and television frequency rights in foreign countries, worldwide artistic performance rights, and music copyright.

A comparison of our fiscal year 1988 and 1989 operations and maintenance budgets shows not only no growth after inflation but our FY 89 budget represents far less than the inflation growth. Our FY 88 budget was $61.469M and for FY 89 it is $62.395M; a difference of only $926K, which is only a 1.5% increase in a time of 3.7% inflation. In fact, the FY 89 budget is nearly $7.7M less than our initial budget request because of an internal DoD cut before DoD submitted our final budget.

Since this hearing is mainly involved with Stars and Stripes issues, I believe it best that I elaborate on these responsibilities.

AFIS develops and implements policies for all DoD publications to include military installation newspapers, periodicals, and pamphlets. It serves as the primary DoD point of contact for Congress on these policy issues. As part of that broad oversight, AFIS has policy responsibilities for the two Unified Command newspapers: the Pacific Stars and Stripes and the European Stars and Stripes. These two publications are owned by the Unified Commanders and are governed by the DoD Instruction, DoDI 5120.4.

The two newspapers provide overseas personnel and their dependents international, national, and regional news; features; commentary; and entertainment from the United States. In that sense, the Stripes represents a DoD "hometown" newspaper for each military theater. Equally important, the two newspapers also cover local, regional, and national news, features, and entertainment concerning their military theater. The newspapers cannot take an editorial position. For both missions, the DoD policy has been and is that the two newspapers will not be censored and that there will be no willful, calculated withholding of unfavorable news.

Everyone knows the Stars and Stripes have a long tradition of serving our American forces and their dependents in overseas areas where individuals often are isolated and do not receive other commercial newspapers. Most believe that the newspapers originated during WWII in Europe and associate Stars and Stripes with the cartoons of Bill Mauldin. In reality, the Stars and Stripes can be traced back to WWI and even to the Civil War. The first known publication of Stars and Stripes was in Bloomfield, Missouri, when Union soldiers printed and distributed the newspaper to Federal troops. Copies of that newspaper are preserved. The Stars and Stripes newspapers are similar to commercial American newspapers in content, but are unique in their coverage of their military theaters. From its beginning, the purpose of the Stars and Stripes was primarily to support our overseas American fighting forces by keeping them informed of United States and theater news even during periods of conflict. That important wartime mission was recognized by American leaders such as (then) General Dwight Eisenhower who supported this vital wartime mission of the Stars and Stripes.

The staffs of the two newspapers are composed of both military and DoD civilian journalists who serve their nation by providing a credible daily newspaper competitive with major metropolitan newspapers throughout the United States. These editorial staffs are comparable to commercial newspapers. Editing decisions are made by several levels of editors. While both newspapers have civilian managing editors, DoD has not imposed a standardized staff composition.

The Stars and Stripes business operations are also similar to commercial newspapers. The European Stars and Stripes is published at Darmstadt, Germany and is distributed in three editions throughout Western Europe, and portions of the Middle-East. Its daily circulation is approximately 138,000. The Pacific Stars and Stripes is published at Tokyo, Japan and is distributed throughout the Pacific theater. Its circulation has grown throughout the past year to 41,000. The cost of the newspapers to the readers is kept as low as possible so that they are affordable to all members of our American forces overseas. The Stars and Stripes Monday through Saturday editions cost 25 cents and the Sunday edition costs 50 cents in both theaters. The price of the European newspaper was raised to 25 cents in 1986. Although the Stars and Stripes outsell competitive commercial newspapers like USA Today on a ratio of 10 to 1, the newspaper sales activity alone cannot support the Stripes effort. The two newspapers need additional revenues to support their costs. To provide these revenues, the Stars and Stripes organization in both theaters are supported by job printing shop operations in their plants; the resale of commercial books, magazines, and other publications in Stars and Stripes bookstores; by limited advertising authorized by the Congress; and through minimal appropriated fund support for items such as the salaries of mission-essential personnel, some transportation costs, utilities, and maintenance.

This subcommittee is already aware of the problems, challenges, and difficulties the Stars and Stripes operations have faced. We have worked with you and reached understandings about the impact of the shrinking dollar overseas and its effect on Stars and Stripes revenues and operations. In that capacity, I might give a quick summary of the events preceding this hearing.

In 1986, the General Accounting Office conducted an evaluation of both Stars and Stripes and published its report entitled "Stars and Stripes: Appropriated Fund Should Be Reduced." As a result of that GAO report, AFIS worked with Congress and in its response to the GAO recommendations and congressional language, established the Rosen Commission to thoroughly evaluate financial management of the two newspapers. The Rosen Commission was composed of seven senior officer reservists and chaired by Mr. Robert Rosen, a New York businessman. The commission's report was published in December 1987. It is the foundation for the DoD's effort to ensure appropriated funds are reduced and to implement more cost-effective operations. The Rosen Commission was a thorough, wide-ranging study of the Stars and Stripes. Its recommendations covered a broad range that included suggestions to improve the quality of the newspaper, and the management of its resources, to include editorial operations. We have kept the Congress informed of our progress and have already incorporated some short-term recommendations that were cost-effective. As an example, we are in the process of accepting bids from accounting firms to establish a common accounting data base for the two newspaper operations, and to further evaluate consolidation of resources.

In 1988, the General Accounting Office initiated an evaluation of the two Stars and Stripes, at the request of Senator Proxmire, in response to allegations of censorship and news management. The teams received the full support of the Unified Commands, the staffs of the two Stars and Stripes, and the DoD. The report was published in December 1988 and our formal response was included as an appendix. We have cooperated with the Congress and currently we are in the process of evaluating those recommendations. I was particularly pleased with the GAO and the Society of Professional Journalists observations about the quality of the two newspapers. In their appendix to the report, the Society of Professional Journalists stated:

> "...all the tools are in place for a healthy, vigorous newspaper that military personnel stationed overseas can be proud of. Generally, both S&S editions have lived up to that mission. A review of recent papers in both commands indicate that on a day-to-day basis, our military personnel and dependents are provided journalistically sound newspapers."

Notwithstanding all of the prohibitions against any deviation from the "free-flow of information" principle, it must be recognized that there are limits to our oversight capability. Limited by time and space in both electronic and print media, there are hundreds of personnel who make editorial decisions daily. All managerial personnel are fully informed of DoD policy; however, interpretation of the policy presents challenges at the local level.

Although AFIS has policy and oversight responsibilities over the Stars and Stripes, it does not fund Stars and Stripes. The Theater Commands are responsible for the funding and operations of the two newspapers. Through its policy and oversight responsibilities, the DoD ensures that the Stars and Stripes newspapers receive full support of the Unified Commands and are operated in a business-like manner.

The newspaper business is dynamic. From time to time there are going to be decisions involving the exercise of judgment which may appear to deviate from established policies. The DoD and the Unified Commands make corrections where necessary to keep the papers operating as intended.

Our duty, as DoD, is to provide the American forces overseas an uncensored newspaper that reports on both the news they would receive if they were in the United States and on the military activities that affect their daily lives. I welcome the opportunity to answer any questions you may have on our editorial policies, the responsibilities of the DoD on financial aspects of the Stripes or the Rosen Commission initiative.

I can assure you that the Secretary of Defense, the Assistant Secretary, the CINC's and myself are dedicated to the elimination of even the appearance of censorship or news management and will aggressively pursue the issue to ensure the proper application of DoD policy and philosophy in both theory and practice.

Mr. HUTTO. Thank you very much, Mr. Rizer, for summarizing. Incidentally, the full statements of all of our witnesses today will be entered into the record without objection.

Mr. Hart, how about this proposal to consolidate? Does DOD reject that or is it something that you're looking at? Would you explain to us your position?

Mr. HART. Mr. Chairman, it is not something that we would prefer. We think there's a mission to be performed on both sides of the ocean. We feel that mission has been going on for an awful long time now. We feel it's been done very well.

I think that if we were to consolidate the papers in this country that there could even be more claims of management of the news, that DOD could become too heavy handed perhaps. We wish to not have that ever happen. We try not to micromanage the newspapers. We have officers in place as on-scene managers. We think it works very well. We would like to continue with it as it is, and yes, we would like to make improvements and corrections where they're necessary.

Mr. HUTTO. But GAO argues that the news that would be going to both papers is really wire service copy, national, international news, and then in the European region as well as the Pacific, they would be able also to, as they have in the past, put in their regional or command news.

Mr. HART. Yes, sir. I'm not sure that that's going to be the savings that GAO has suggested. I would like to, in most of these questions, refer to Mr. Rizer who does have the day-to-day oversight, if I can. But just to say that currently, the newspapers are getting wire services. It is the judgment of the editors at the papers as to what story makes a major play.

You would find that frequently there would be major news in theater pertaining to the troops in theater that would not be appropriate in the other theater. We think that to, unless we were just to change the entire operation where we just put out all——

Mr. HUTTO. But it would be different, according to the GAO's recommendation. You'd have your copy for the European theater, and you'd have your Pacific news in the Pacific theater.

Mr. RIZER. May I comment?

Mr. HUTTO. Yes, sir, Mr. Rizer?

Mr. RIZER. Sir, that hasn't got anything to do with the stories that are generated in the theater, but where the stories have the greater interest. For instance, the current treaties involving some nuclear weapons in Europe would be of high interest to those troops that are stationed in Europe, but would not be of the same high interest as those stationed in the Pacific. Since those stories would be national stories that would be carried on the wire services, one would have a greater interest in certain stories while the other would have another greater interest in other stories.

But the real danger happens when you centralize the management in Washington. What you do is, you give the appearance of news management, particularly since this is a Government activity in a Government agency.

Mr. Chairman, the perception of news management is as dangerous as real news management because it destroys all credibility regarding the news.

Mr. HUTTO. OK. What is the DOD policy governing news management and censorship with regard to the *Stars and Stripes*? What controls are in place to prevent censorship? Either one of you or both of you.

Mr. RIZER. Basically, it is the DOD directive. That DOD directive was coordinated with the Congress to ensure that it afforded the protections. No one can give orders that are illegal or wrong. However, that doesn't mean to say that even if traffic laws are good laws that no one will ever break a law or misunderstand a law.

I submit that the reputation of *Stars and Stripes* over the years, is good. The individual soldier, sailor, airman, and marine buy the paper regularly and by such votes state that they believe them to be credible newspapers and they are in fact doing their job.

Mr. HUTTO. You indicated you were making some improvements?

Mr. RIZER. Yes, sir.

Mr. HUTTO. Or you intend to. What actions are being taken to deal with the current allegations of censorship?

Mr. RIZER. The first thing we're going to do is we're going to look at the regulation because I'm very concerned that the GAO's comments that our more recent change in the regulations may have lead to some misunderstanding. Those require clarification. But certainly there's no intent on our part to have the regulations ever available for use to manage, control, or censor the news.

The second thing is of course the immediate implementation of the ombudsman. The GAO made a comment or made the statement that they felt as though we needed to have civilian editors in charge of the two newspapers from the editorial policy standpoint. We believe and are looking at the possibility of implementing this concept in the future. However, to bring them in at this time where we have existing civilian managing editors of the two papers would be to put someone over someone who is doing basically a good job and accusing him of not doing his job.

We'd look at this in the long haul as a good place to look for a possible fix and we will work with the Committee and the Committee staff on this.

Mr. HUTTO. Would you agree with the GAO that the dual mission of *Stars and Stripes* is first to publish news like a commercial paper and be protected by the First Amendment, and second to be like a command newspaper and carry DOD command and local news results in an inherent conflict that has lead to these allegations of censorship?

Mr. RIZER. I believe you can make a case for it, but I don't buy it. Let me explain why.

There is plenty of room in the paper to carry both kinds of information, and one is not in opposition to the other. They don't compete for space. Much of the command information that's accomplished by the theater commanders has to do with such things as Reforger exercises where troops are taken from the United States, flown overseas, and people such as the deployed National Guardsmen in that particular theater get an opportunity to read about what they're doing and the command in that theater can see it.

The same situation exists where we have the operation that most recently took place in Korea where we have large numbers of troops suddenly sent over to the Pacific. These are two different groups, and it begs again for two different supporting command newspapers. But there is no way in which the command information role should be in conflict with the national and international news information. They're not incompatible. They are only if you want to make a case that they might be, but the truth is that they are not.

Also, I'm a little bit concerned when someone says that because a man wears a uniform, he is no longer a good citizen or that he is no longer a free editor. Just because we have a doctor in uniform doesn't mean he's not a good doctor. Because we have military officers that serve as editors doesn't mean that they are not good, First Amendment-type editors.

Mr. HUTTO. OK. Thank you.

Mr. Hefley?

Mr. HEFLEY. In this age when we're trying to contract everything out, why do we have an obligation to provide a newspaper to the soldiers overseas?

Mr. RIZER. Because they're citizens, sir, and because in order to exercise a right to vote, they have to get the same information and I beg misinformation that every other American citizen gets and base their judgment as to what they believe. So by providing them with a First Amendment-type vehicle, they do have the same basis of information. We try to parallel the American newspaper industry. We do the best job we can, or the editors do, to make sure that those papers are representative of U.S. commercial newspapers.

It is not economically viable for a home town newspaper to exist and deliver copies to where there are only 20 soldiers. We have to deliver a copy to where there are only 20 servicemen. That would not be a sound business decision.

The Committee members heard that there are costs associated with *Stars and Stripes*, and I beg that these costs could not be overtaken by commercial advertising because what we do is we make non-business type decisions to make sure that the serviceman does get a free flow of news and information as to what's happening at home.

Mr. HUTTO. Would the gentleman yield just a moment?

I thought it was pointed out earlier, though, that these servicemen have access to other newspapers like *USA Today*, the international publications and so on.

Mr. RIZER. OK. In some cases they do where there are large groups available, where there's a good marketing available; in other words, it makes marketing sense. You would not deliver *USA Today* to a location in which only 20 servicemen exist.

Mr. HUTTO. But that is done by the *Stars and Stripes*?

Mr. RIZER. Where it is possible it is done. The *Stars and Stripes* will deliver its own paper and sometimes *USA Today* to a post, camp, or station which is too small to make it a financially cost-effective delivery. *Stars and Stripes* must serve the troops even in areas where there are losses.

Mr. HART. My comment was going to be that in case of a conflict or war, if there were not a *Stars and Stripes*, we probably would have to invent one in order to keep our fighting men informed at that time.

Mr. Rizer. In order to deploy reporters to the combat zone in these combat situations different than you would routine reporters.

Mr. Hefley. A year or so ago, you made a case that Panama needed a *Stars and Stripes* newspaper. Do they still need that?

Mr. Rizer. We've got a problem. The problem is that because the Panama treaty is limited, we're planning to be out of there. It now makes it "cost difficult" to be able to start a *Stars and Stripes* up. Do we need it? Yes. Do we have it? No.

What the command is doing there now is it's doing "Tropic Times" which is totally appropriated funded because there is no printed news going in and out of Panama at this time. The people down there have really no printed material that's available to them from any commercial source.

Mr. Hefley. Let me go back for a few more questions and talk about the place where there are 20 soldiers.

Mr. Rizer. Yes, sir?

Mr. Hefley. How many places are there like this where they cannot receive a *USA Today*? Are there very many? Do you have very many people stationed where they could not receive the other newspapers?

Mr. Rizer. Yes, sir, we do. It's not just a case of how many people are not there. At what point would you make a break off for *USA Today*? I've asked *USA Today* to make an independent study to see whether they couldn't in fact take the place where we are, and I've talked to the President of *USA Today International.* His comment to me, and it was informal, was that as far as the Pacific is concerned, forget it. The time and space is just too great to even consider. In the course of Europe, they're still studying it but it doesn't seem to have a whole lot of promise because of the expenses that they would have in trying to operate.

Mr. Hefley. OK. Thank you, Mr. Chairman.

Mr. Hutto. Thank you.

With regard to Panama, is Noriega suppressing the news to our servicemen in any way?

Mr. Rizer. He is suppressing the flow of newspaper copy into Panama. He is not suppressing the Armed Forces radio and television broadcasts, but he is suppressing the flow of materials going into Panama to my knowledge.

Mr. Hutto. Mr. Ray?

Mr. Ray. I don't have any questions, Mr. Chairman.

Mr. Hutto. Our staff member, Mr. Waters, has some questions.

Mr. Waters. DOD has stated that the Status of Forces Agreement effectively prohibits investigative reporting. Could you explain that for us, Mr. Rizer?

Mr. Rizer. Well, it's not just the Status of Forces Agreement. Let me explain what the situation is, and it is not investigative reporting that is barred. The word is "investigations," and we had to make it clear to the reporters in the regulation up front what was going on. A reporter with the *Stars and Stripes* is a Government employee. If he knows of a crime that has been committed or he knows of the leaking of classified information, for instance, he must by law turn it in. He can't claim confidentiality and privilege. Under those circumstances, we had to make it clear that they were not investigators and therefore should stay clear of investigative stories.

In addition, it presents an interesting problem regarding the Status of Forces Agreement, because it requires that these people have been brought over as part of the U.S. Forces and since they carry Government-type passports, in other words, DOD-type passports, that they must abide by the Status of Forces rules. This would bar a *Stars and Stripes* reporter from conducting investigations, not investigative reporting. This is an area that needs further clarification, and I recognize that. I will go back and fix it in our regulations.

Mr. **Waters**. We discussed the Rosen Commission Report earlier. I was asked to look at ways to reduce appropriated fund support. Their report included a couple of these measures. Have any of these been implemented?

Mr. **Rizer**. Yes, sir, they have. Would you like a listing of some of them?

Mr. **Waters**. Well, you can just provide them for the record. That'll be——

Mr. **Rizer**. Sure. We'll be glad to. We've implemented many of them and they've been incredibly helpful, and these were dedicated Americans that really helped us with this study.

Mr. **Waters**. Another point in the Rosen Commission Report was that newsprint in the Pacific has not been competitively bid for 30 years. Now, that just seems contrary to where we're going with the rest of our business. Could you comment now?

Mr. **Rizer**. Let me go back and review that particular comment. I can't address it at this time. Let me go back and provide it for the record.

[The following information was received for the record:]

The Pacific *Stars and Stripes* did not compete their newspaper for low cost. Because they are so dependent upon air transportation in the Pacific theater to ensure the daily newspaper is delivered in time, Pacific *Stars and Stripes* management is very concerned about weight as a critical factor. Low weight saves appropriated funds in transportation. To this date, Pacific *Stars and Stripes* has found only one newsprint that meets both weight and print-quality considerations.

Mr. **Hutto**. On that subject, is it competed in Europe?

Mr. **Waters**. I believe it is.

Mr. **Rizer**. I will have to, again, I don't have the specifics and the details on that, sir. I would have to come back on it.

[The following information was received for the record:]

Europe, which does not have the same weight considerations as the Pacific, does have competition for their newsprint sources. They plan to start selection competition again this year.

Mr. **Waters**. Thank you, Mr. Chairman. That's all I have.

Mr. **Hutto**. Mr. Cofer, do you have a question?

Mr. **Cofer**. Mr. Chairman, I have one question. It's a philosophical question.

I travel on the committee and when I'm in San Diego, I'll read a news story, and I'll come home and read the *Washington Post* and get the same story, but it's different. I may go the *New York Times* and get the same story, but it's different. I recently read an article in San Diego over the AIDS virus being introduced into Russia, and it was because of needles being dirty. The *San Diego Times* said that the disease was spread to four Russian mothers through their infants nursing on the breast. Well, when I came to the *Washington Post*, the story was almost the same but it left that out, which was a very important point. We're talking about the spreading of AIDS. Then you can go to other areas, and you take the *Washington Times*, very drastic coverage of the same item.

How do you define censorship? What does it mean to you? In the case that I reported to you, is the *Washington Post* possibly guilty of censorship? Where does the censorship differ from good effective management of a newspaper?

Mr. RIZER. You make my case, sir, and I appreciate that. There are differences in the perception of what is news. It is an editorial decision. It must be made free and independent. There are no two editors that are identical. Certainly, the differences between the *Washington Times* and the *Washington Post* are certainly more different than the difference between the European edition of the *Stars and Stripes* and the Pacific edition of the *Stars and Stripes*. I think that to conclude that one was censoring or that one was news managing would be inappropriate.

Mr. COFER. Well, what's the definition, Mr. Rizer? I mean, if we're talking about censorship here, and the GAO's talking about it——

Mr. RIZER. Censorship is the calculated withholding of news. I make the case that there has been no calculated withholding of news ever presented to me. When someone has made an accusation that someone was a censor, and in this particular case, *Stars and Stripes* Pacific, I asked the reporter to give me one single actionable case or example, and he refused. I then had my Staff Officer contact him in writing, and the reporter absolutely refused to provide us with one single actionable case.

When I believe that there may be news management or censorship before it actually takes place, I try to get on board and make sure that that doesn't happen. There are going to be editorial decisions; there are going to be command decisions. They may not always parallel mine or yours, but at no time have I ever been presented a single case of news management or censorship regarding the *Stars and Stripes* Pacific as was alleged here today.

Mr. COFER. Then what is the issue in the GAO and what was the issue of bringing up this whole study then?

Mr. RIZER. There were allegations, sir. The allegations—and you have to investigate allegations, that's what we have a Congress for—to make sure that what it is is free and right. If there are mistakes and if there are in fact things that are broken, I'm prepared to fix them. I don't say that they're not broken. I just haven't had a case presented to us.

Mr. COFER. Just one last question, Mr. Chairman.

This has to do with what you talk about, the free flow of information under the Constitution, the right to a free press.

Mr. RIZER. Yes, sir.

Mr. COFER. This is just a discussion here. When a man goes into the service, he gives up certain Constitutional values. We have our own system of military justice.

Mr. RIZER. Yes, sir.

Mr. COFER. In other areas under the Constitution and under the law, the GI does not have all of the constitutional freedoms that I, as a civilian, have.

Mr. RIZER. But he retains the right of franchise.

Mr. COFER. Well, let me finish my question.

Mr. RIZER. Yes, sir.

Mr. COFER. Is it inherently possible that a military paper, such as this, can guarantee total free flow of the news as you stated it, in all cases; and is there not some inherent disadvantage structurally between the mission of the *Stars and Stripes* in war time and dissemination of news which entails some censorship in war time?

Mr. RIZER. Yes, sir, there is. Conceivably in time of combat, and conceivably it is possible to get classified information from a specific theater. Certainly reporters have given classified information out before. It is possible to hurt combat forces by the unlawful disclosure of classified information or by something that would interrupt troop movements. That reason is one of the reasons why we must retain the *Stars and Stripes* under the theater commands.

I can only see those things in imminent combat situations. However, combat can come up in a hell of a hurry. Because of that, the mechanism has to exist because it can come up in a hurry. But it should never take place during a peacetime situation.

Mr. HUTTO. Mr. Hart and Mr. Rizer, we've been informed that two former editors-in-chief, one in Europe, Navy Capt. Dale Patterson, and another in the Pacific, Air Force Col. Richard Stevenson, left these positions under difficult circumstances.

Can you elaborate on that?

Mr. RIZER. I'm prepared to address that, sir.

Mr. HUTTO. All right.

Mr. RIZER. In this particular case, Dale Patterson is a dear personal friend of mine and somebody I personally recommended to the *Stars and Stripes* Europe. Dale left after almost 30 years of service because he, as he said, I was sick and tired of getting calls in the middle of the night by junior and senior officers because of things that I published in *Stars and Stripes* and I figured I'd been around too long to put up with that bull.

What he did do is he decided to retire and at the same time take a very lucrative position in the broadcast industry, in this particular case, the television film industry.

I asked Dale very specifically had anyone ever requested or directed him to withhold news or information in *Stars and Stripes*. He said no. They always argued with me because of what I published but they never argued with me before I published it. There has been no prior restraint.

I said, Dale, did this influence, affect the way in which you managed the newspaper. He said, no, it just ticked me off, except he was more graphic in his explanation.

Mr. HUTTO. OK.

Mr. RIZER. In the case of the Pacific, there was a different situation. The commander of Pacific *Stars and Stripes* was transferred by Admiral Hayes because of his desire for stronger leadership and business management practices at the newspaper. He also had some concerns about his leadership style with the reporters and the rest of the staff. He believed that that might have contributed to the problem of poor morale in the Pacific.

Mr. HUTTO. Have the allegations damaged the *Stars and Stripes*?

Mr. RIZER. Of course they have, sir. They have damaged them in that it affects the credibility and the perception of the readership, just as any allegation affects anyone's reputation.

Mr. HUTTO. You believe that your improvements and your dealing with this can restore that credibility?

Mr. RIZER. I hope to. That's one of the reasons why we're trying to use the best methods we know. The ombudsman is a chosen practice of many of the Nation's major newspapers to ensure that the papers both are credible and have credibility.

Mr. HUTTO. I'm unfamiliar with the *Stars and Stripes* Bookstores. Would you explain them and their operation? It's my understanding that the books sold there are at regular retail value, and the troops don't get a break on that. Is that right?

Mr. RIZER. That's right.

Mr. HUTTO. I thought that in all of these military exchanges, commissaries, and so on, that there was a preferential rate for our military?

Mr. RIZER. Yes, sir. There's, as we discussed before, the cost of delivering *Stars and Stripes* to remote and isolated areas is expensive. This means what the average cost of the newspaper is to deliver. By the time you've finished with the editorial process, the printing process and really the delivery process, which is the expensive side, runs over 35 cents a copy, 39 cents a copy. We're selling it to the Servicemen at only 25 cents a copy so they'll have it readily available.

At the same time, too, we provide a wide range of books and magazines, a much broader range than previously was carried in the exchange services. The profits that are derived from the sale of books and magazines go to augment the sale, cover the loss that's taken place in trying to publish the *Stars and Stripes*. They are in fact getting a discount. They're getting a 39 cent newspaper for 25 cent, and that's what part of the discount is.

At the same time, too, certain books are discounted, although there's not a broad discount base across the line. Ideally, ideally when we are no longer in the adverse yen and dollar and the mark and dollar relationship, we can go back to discounting books which we have done in the past.

Mr. HUTTO. Would you address the question that I asked of the GAO about the increase in *Stars and Stripes* cost from 1977 to 1984, I believe it was, from $3.7 to $9 million?

Mr. RIZER. It's a combination of two things, and you brought up one of them, Mr. Chairman. One of them that you brought up was the business of the increase in the value of the dollar, in other words, the inflation rate. The second thing has to do with the difference between the cost of operating in Germany and Japan. This has, again, a dollar/yen relationship and that more than covers the increase from $3 to $9 million.

Mr. HUTTO. OK. Mr. Hart and Mr. Rizer, thank you very much for your testimony. It's a pleasure having you, and we perhaps will have some more questions for you to submit the answers for the record.

Mr. Ray, do you have a final question?

Mr. **Ray**. Yes, please, sir.

Mr. Hart, Mr. Rizer, the Department of Defense has stated that a reporter is a Government employee first, and a reporter second. Do you agree with that?

Mr. **Rizer**. Well, he is a Government employee, and there's no way I can divorce that. So he automatically comes under the law, and therefore he can't shed that. He can't shed that responsibility.

Mr. **Ray**. You think he's in any way compromising his reporting?

Mr. **Rizer**. I hope not. That's one of the reasons why we've made the regulations the way we have to give him a degree of protection. If we said that he could be censored or if we allowed him to take these other guidances, then in fact, it would be compromising.

Mr. **Ray**. Could you talk just a minute about the Advisory Board, the make up of it. Is it——

Mr. **Rizer**. The Advisory Board serves more like an editorial board. In other words, when in the European command—and I'm more familiar with the European command because I've attended several of them in a different light before I got my current position—and in that particular situation, I saw the public affairs officers of the various commands argue mainly that they didn't have enough reporters in their theater covering events pertaining to their particular activities. For instance, the Navy was always complaining that they needed a reporter or a bureau established at either Rota, Spain or at their headquarters in London. So, but that's mainly what I saw happening.

I didn't see anyone complaining about the kind of news that was being carried.

Mr. **Ray**. I notice that some of the language in the guidelines says that recommended guidelines that the commander in chief wishes to be directive will be communicated in writing to the editor-in-chief.

Mr. **Rizer**. That's right. That keeps there from being any subtle pressure, and that's why it's done in writing so there's documentation that in fact ensures that anybody that takes such a course of action will be on record.

Mr. **Ray**. So the Board is charged with recommending editorial guidelines, evaluating the balance of presentation of news, and recommended changes?

Mr. **Rizer**. Yes, sir.

Mr. **Ray**. Is there any way this board can get into the business of managing the news?

Mr. **Rizer**. I think I can best answer it that to my knowledge, there has never been a case in which there has been news management done through this technique. What there has been is a comment of either concern or a comment regarding the business of establishing a bureau. I'm not saying that I was present during all the editorial decisions when I was attending these sessions.

Mr. **Ray**. So how is the board appointed, and where is it located?

Mr. **Rizer**. It's located, well, first of all, it's called at the behest of the Chief of Public Affairs of EUCOM, U.S. European Command, who acting for the Unified Commander, calls the session together. It also has the representatives of Armed Forces Radio and Television at these sessions.

They address specific issues involving the commands. The time of programming, the delivery of newspapers, the editorial policy content. In the one which I attended, Mr. Proctor, who was the civilian managing editor, showed that there was an election coming up and he gave a total listing of the total columnar inches carried for each public party so that there was a balance and each party did in fact have a balance of news carried for them regarding the current election.

Mr. RAY. This Board is made up of military people?

Mr. RIZER. Military and civilian employees.

Mr. RAY. Do they give any kind of special remuneration for being on the Board?

Mr. RIZER. No.

Mr. RAY. A travel sum to——

Mr. RIZER. They travel, they're called four times a year, as I recall.

Mr. RAY. Does the Board rotate periodically?

Mr. RIZER. Yes, as the members change.

Mr. RAY. Has anybody been on the board a long time?

Mr. RIZER. No, not a particularly long time, with the exception of the civilians who may be called for a long time because they're permanent within theater.

Mr. RAY. How many people are on the board?

Mr. RIZER. Normally, I would say about 10 or 12.

Mr. RAY. They have some particular expertise?

Mr. RIZER. Yes, sir. They're in the public affairs business.

Mr. RAY. I note also that there's a prohibition against investigative reporting by *Stars and Stripes*.

Mr. RIZER. Sir, again, can I take issue? It is not a prohibition against investigative reporting, sir. It is a prohibition against investigations.

Mr. RAY. OK. So you can tell the difference between investigative reporting and other reporting in the process?

Mr. RIZER. What I need to do is I need to do a better job of defining the role of investigations. I recognize that the regulation as it is now is imperfect and it needs to be fixed. I will take that on to fix it.

Mr. RAY. Thank you.

Mr. RIZER. Yes, sir.

Mr. HUTTO. Thank you, Mr. Ray.

One final thing. These allegations have been against the *Stars and Stripes*. of course, you're the director of the Armed Forces Information Services, and you've talked about the Armed Forces Radio and Television Services. These allegations have not been levied against Radio and Television?

Mr. RIZER. There has been an allegation that has been raised against Radio and Television and that was made by a member of the House. That involved——

Mr. HUTTO. That's just one instance that you know about?

Mr. RIZER. To my knowledge, there may have been—I know of no other that is up front.

Mr. HUTTO. What was this about?

Mr. RIZER. This involved the allegation of censorship regarding the coverage of a news event pertaining to Korea. It had to do with the opposition party leader being returned to Korea. There was concern on the part of the command in Korea, and it was a decision of the U.S. Ambassador that the story could not be carried. Under the circumstances, we killed the entire newscast. It was a story that the Korean opposition was trying to get media coverage for, was unable to get it through Korean media, staged it so that it would be covered for U.S. media, and it therefore would be covered overseas because the U.S. media would pick it up, it would go over the satellite to the TV station in Korea and then would be rebroadcast there. We dropped the story and we dropped the entire newscast, rather than edit out a newscast. We have an agreement with the industry that we will not edit any newscast.

Mr. HUTTO. But that was done because of action by the Ambassador?

Mr. RIZER. Yes, sir.

Mr. HUTTO. Does the Ambassador in each country have that authority?

Mr. RIZER. In certain countries, where we are broadcasting on national airwaves, and we are broadcasting at the deference of that host government, the Ambassador has the authority over certain sensitive issues involving the internal politics of that country to bar a story. But the incidents of this taking place are minuscule.

Mr. HUTTO. All right. Thank you both.

The next witnesses we will call are the managers and editors of the *Stars and Stripes* newspapers. Col. Jeffrey M. Cook of the United States Army is the Commander and the Editor-in-Chief of the European *Stars and Stripes*. Col. Edwin J. Montgomery, Jr., United States Air Force, is the Commander and the Editor-in-Chief of the Pacific *Stars and Stripes*.

We welcome both of you to our hearing this morning, and gentlemen, you may proceed as you see fit.

STATEMENT OF COL. JEFFREY M. COOK, COMMANDER AND EDITOR-IN-CHIEF OF THE EUROPEAN *STARS AND STRIPES*

Colonel. COOK. Thank you very much, Mr. Chairman.

I'm Col. Jeffrey M. Cook, Commander and Editor-in-Chief of the European *Stars and Stripes*. I'm pleased and honored today to answer the committee's questions on the editorial and business operations of the European *Stars and Stripes*.

We have a long and illustrious history, and I believe we perform a vital function in providing a quality daily newspaper to the men and women of the U.S. European Command and their families. For nearly 47 years, the European *Stars and Stripes* has been the hometown newspaper for Americans serving in Europe. We strive to provide accurate, balanced and complete reporting of the news, adhering to the best standards of American journalism.

The content of the newspaper is similar to what our readers are used to in the United States, although there are some basic differences. We can accept only limited advertising primarily from nonappropriated fund activities such as the Army and Air Force Exchange Service. We also, by regulation, may take no editorial position ourselves, although we publish columns and editorial cartoons from commercial sources, ensuring in the process that we present a broad range of political viewpoints.

Since we serve a military audience, we take care to ensure that our news stories and features meet their unique interests and needs. The newspaper contains a full range of national, international and military oriented news and features so that our readers truly have a newspaper which caters to their very special way of life.

I am convinced that our readers depend on and trust us to provide accurate, balanced and comprehensive news and information without censorship or news management.

That concludes the summary of my statement.

PREPARED STATEMENT OF COL. JEFFREY M. COOK

STATEMENT, COL JEFFREY M. COOK
Commander and Editor-in-Chief
European Stars and Stripes

I am pleased and honored today to present to the Committee my views on the editorial and business operations of the European Stars and Stripes. We have a long and illustrious history and I believe we perform a vital function in providing a "First Amendment" newspaper to the men and women of the U.S. European Command and their families.

For nearly 47 years, the European Stars and Stripes has been the "hometown newspaper" for Americans serving in Europe. We strive to provide accurate, balanced and complete reporting of the news, using the tenets of American journalism as the underlying philosophy for our editorial operations.

In addressing the issue of editorial integrity, I believe it is helpful at the outset to quote one of our more renowned former staffers, Mr. Andy Rooney of CBS News. He recently had this to say about his experience on the newspaper during World War II:

> I've always felt guilty about the four years I spent in the Army in World War II. If you don't get killed or seriously wounded, war is a great experience, and my three years as a reporter for the Stars and Stripes was the greatest experience of my life. I saw that wonderful and terrible war close up. The Stars and Stripes in those days wasn't a propaganda unit, it was a newspaper -- the kind of newspaper the soldiers had known at home and trusted at home. General Eisenhower made certain we were free and independent of all the pressures that are inevitably exerted on so influential a force as an Army newspaper. I hope the Stars and Stripes is as free and independent today as it was when I knew it. Truth is important to soldiers.

I believe today's European Stars and Stripes does live up to Mr. Rooney's expectations and our operating philosophy remains essentially as it has been since World War II. We provide our readers with a full measure of national and international news as well as sports and features. We also cover the news in Europe which affects our readers and we do this much as any newspaper in the United States covers the city in which it operates. We select stories for their news value, or because they are of interest to readers. By regulation, we take no editorial position ourselves, but we must present our readers with the full spectrum of editorial comment available commercially. Our "city" is geographically very large -- covering the continent of Europe -- so the job of covering local news is considerably more complex than it is in a comparably sized daily in the U.S. But we try very hard to provide our readers with what they expect and deserve in a newspaper they pay to receive. I believe they trust us just as the soldiers during World War II trusted The Stars and Stripes.

As the military Commander and Editor-in-Chief, I am involved in the editorial process in a number of ways. One of my primary roles is to help uphold the editorial integrity of the newspaper and I take this responsibility very seriously. This includes a responsibility to guard against any potential censorship or news management. I play an equally important role in ensuring the newspaper is edited and managed to the highest standards of the journalistic profession.

Since I am ultimately responsible for the editorial content of the newspaper, I certainly decide major policy issues, attend daily editorial meetings, discuss possible story ideas with editors and review stories involving important operational issues. Day-to-day decisions on story treatment, placement, and which stories we will and will not run are made by the professional civilian editors who, I believe, do an admirable job of providing our readers with a full picture of the world. Because these senior editors are professionals, they confer with me frequently and are alert to and carefully handle controversial matters or stories requiring special care (such as those involving the security of U.S. Forces personnel and installations).

I have never been told by anyone in the chain of command that we should or should not print a particular story. Rather, almost all of the concerns which have arisen involved after-the-fact reaction to stories we printed. This is a rather infrequent occurrence, but when it does arise, I approach questions and complaints on stories from a purely professional viewpoint, acknowledging when appropriate, that we may have made a mistake, learning from such mistakes, but also challenging any incorrect assertions. When situations occasionally arise where we experience difficulty securing information from the public affairs officer of a particular command, I may discuss the issue with a senior theater public affairs officer. On the few occasions when I have done this we have been able to quickly and efficiently deal with the issue at hand. I emphasize that the basic process presumes that issues can be dealt with effectively by using existing channels and I have found that we can deal with concerns from both sides in a professional and rational manner.

Our written operating guidelines stress the need for accuracy, balance and fairness in presenting the news. The guidelines underline that we operate in a military community and must be alert to the special nature of our audience in comparison with what might be typical in a U.S. city of comparable size. We stress that reporters' own opinions have no place on the news pages and that Stars and Stripes reporters are to be treated the same as reporters from the commercial media. These guidelines provide a comprehensive outline of how we report the news, emphasizing Department of Defense policy on a free flow of information without censorship or news management.

I believe the basic system within which we operate is sound but it can be improved by more precise language in certain sections of the Department of Defense and U.S. European Command directives. We are participating in an ongoing review of these documents and I believe a stronger system will emerge from this effort.

The General Accounting Office recommended a civilian journalist be responsible for news content within the newspaper, acknowledging the need for a military commander of the Stars and Stripes organizations. An important point I wish to emphasize is that the civilian Managing Editor at European Stars and Stripes is responsible for news content on a day-to-day basis, but as Editor-in-Chief, I bear ultimate responsibility to the Commander-in-Chief, U.S. European Command, for the operation of the newspaper. That is precisely how it should be and I oppose any action which would somehow remove from me the authority to make final decisions on editorial matters.

Our Letters to the Editor program provides an important avenue to commanders and others to voice their opinion on articles appearing in the newspaper. This is the most widely read page in the newspaper and it affords commanders (and any other reader) with an excellent means to express their views on a particular issue or to offer clarifying comments on topics of concern. As a matter of interest, we have received and published letters from a number of senior officials within Europe, including two letters from the former Commander-in-Chief, U.S. Army Europe (USAREUR). We believe the Letters to the Editor program helps promote understanding of issues and provides the readership with an excellent forum for exchanging ideas.

From a financial standpoint, European Stars and Stripes has experienced a significant growth in retail sales during my tenure. Although the value of the dollar has declined considerably in relation to the Deutschmark, we have maintained a profitable financial posture. In order to keep the price of the newspaper as reasonable as possible, we operate 195 bookstores throughout Europe. We also operate a job printing shop and accept only limited advertising (by Congressional direction) primarily from other nonappropriated funds. In August of 1987 we began accepting personal classified advertising and this has provided both a badly needed service to our readers and a modest level of new income.

We believe certain changes should be made to the advertising rules under which we must operate to permit us to improve our financial posture, particularly in view of the need to reduce appropriated fund support for the two Stars and Stripes organizations. We do not seek across-the-board advertising authority, merely modest procedural changes which would permit us more flexibility in our advertising program. For example authority for unrestricted classified advertising is, in our view, a major necessary change which will appreciably improve service to readers and could represent a significant revenue enhancement. We also believe we should be granted authority to print food coupons. This broader advertising authority will be of considerable service to our financially pressed readership and it will provide us the financial base to deal with expected reductions in appropriated fund support which is currently 6% of our total budget.

Some 94% of our $68 million annual business comes directly from the pockets of service members, DoD civilians and their dependents stationed in Europe. Their vote is important, and all too frequently overlooked. Increased advertising will benefit them in getting the most for their limited dollars. Increased advertising will help Stars and Stripes be more self-supporting and less reliant on the American taxpayer.

Improving our business efficiency has been a high priority within the European Stars and Stripes organization. With the assistance of the 1986 GAO Report on Business Matters and the assistance of the Stars and Stripes Advisory Task Force (commonly called the Rosen Commission), we have identified a broad range of actions which have helped focus management efforts and improve the way we do business. The ongoing effort by the American Forces Information Service for a contracted study of the financial management systems of the two Stars and Stripes organizations will further assist in improving our operating efficiency. Although much remains to be done in this important area, we have made considerable progress towards the goal of improving our business methods and management practices.

In summary, The European Stars and Stripes is a dynamic organization which provides an essential service to the men and women of the U.S. European Command. The newspaper is well edited, it continues to improve, and I take great pride in the professionalism of our civilian editors and military and civilian journalists. Our readers trust their newspaper and depend on it for news from the United States, from the military community in which they live, and from around the world.

Mr. HUTTO. OK, thank you, Colonel Cook.
Colonel Montgomery.

STATEMENT OF COL. EDWIN J. MONTGOMERY, JR., COMMANDER AND EDITOR-IN-CHIEF, PACIFIC *STARS AND STRIPES*

Colonel MONTGOMERY. Yes, sir, thank you.

I'm Colonel Edwin J. Montgomery, Jr., and I'm the Commander and Editor-in-Chief of Pacific *Stars and Stripes*.

My staff and I publish the newspaper from our facilities located in Tokyo, Japan. As Commander and Editor-in-Chief, I'm responsible for establishing policies, planning, directing and supervising all programs and activities necessary to accomplish the mission of the newspaper. I do this within the guidelines established by my immediate superior who is the Commander-in-Chief of the United States Pacific Command, and the Secretary of Defense.

The Pacific *Stars and Stripes* exists to meet the reading needs of the Servicemen and Servicewomen of the Pacific Theater. We publish a daily newspaper, we sell books and magazines, we provide printing and distribution services. As with other nonappropriated fund activities, the great majority of our expenses must be met by self-generated revenue.

As a newspaper, our mission is to report the news of the world in our theater to a unique and youthful military audience with an emphasis on news affecting that readership and our nation.

My civilian and military editorial staff and I have a clear charter to report the news accurately, fairly, and without censorship. We meet this trust to the best of our collective ability.

The commander-in-chief of the theater, as any publisher can, is the only person external to our staff who can authorize additions or deletions to the content of the paper. In my nearly 2½ years as commander and editor-in-chief, neither of the two commanders-in-chief for whom I have worked has ever exercised that authority.

Moreover, I have never had anyone, no flag officer, no ambassador, no bureaucrat, no one, force the running or killing of a story, or has anyone dictated how a story should be edited or played.

Now, this does not mean that we do not get critical comments from our readership, but that to me is strong evidence that *Stripes* is a First Amendment newspaper.

Now, Pacific *Stars and Stripes* faces many challenges today apart from our normal demanding mission of service to our readership. The continued decline of the dollar threatens the financial liability of all U.S. organizations overseas, and we are no exception. At a point when more appropriated fund support would be helpful, budgetary constraints threaten the level of support that we currently receive.

But the most serious threat of all is to our reputation and our good name. This threat lies in the largely anonymous, publicly trumpeted allegations that the newspaper is censored. While these claims are not new, their damage is of longstanding.

When I arrived at *Stripes* in September of 1986, I found the Staff riven with dissent. There were at least eleven complaints under investigation by the local Army Inspector General's office, four similar complaints to members of Congress, one complaint directly to the GAO, and one formal grievance being pursued through Government civilian channels. The complaints ranged from suspicions of military censorship to concern by some employees that their civilian supervisor was out to get them.

News stories appearing on both coasts in this country described a general "climate of fear" on the staff at that time.

The practical effects of this situation were readily apparent. Senior officials, and not all of them military, were increasingly complaining that the paper was guilty of biased, inaccurate, and sensational reporting. The readership itself was expressing its opinion more fundamentally. Despite a slight increase in the potential audience, circulation had decreased relative to the same month the previous year for 15 months in a row. This combined with the fall of the dollar worldwide, had forced Pacific *Stars and Stripes* to begin operating in the red. With no real prospect for increased external support, the outlook was bleak.

I also found at *Stripes*, however, a large percentage of employees skilled in their work and eager to do it right. They needed personal reassurances that their jobs were not at risk, that the staff of the paper alone would decide what was printed, and that only we, the staff, could take the steps necessary to improve the paper and operate more efficiently.

The collective work of that civilian and military staff has been a success story. For the past 2 years, Pacific *Stripes* has been in the black despite the continued decline of the dollar. More importantly, from the standpoint of our credibility with our readers, circulation turned around and has increased for 15 of the last 18 months.

The anonymous allegations have not left us, however. Although I believe that the individuals involved have decreased in number, their efforts continue to plague *Stripes* and have occasioned a formal investigation by the General Accounting Office. Sadly, in my opinion, that investigation and its subsequent formal report to the Congress were seriously flawed.

Let me enumerate our main concerns regarding that report. First, the definitions selected by the GAO upon which the review hinged permit nearly every editing decision made every day by free newspapers around the world to be construed as censorship. There isn't one paper in the country that doesn't have to make hundreds of editorial judgments as to what should or should not be printed on a given day.

Second, the report failed to analyze the allegations critically and failed to mention important information that would argue against a finding of censorship.

Third, the report was largely based on a content analysis flawed both technically and philosophically. Technically, the analysis measured the use by European and Pacific *Stars and Stripes* of wire service news, when the services given to those two theaters are not the same.

Philosophically, the analysis concluded that differences between the two papers supported a judgment of censorship when the mark of newspapers in a free society is their differences, not their sameness.

Last, at no time during the visit of the GAO to my headquarters or subsequently, was I fully presented with the specifics of the allegations, nor was I presented the opportunity to research and provide substance to the actual facts pertaining to my actions or those of my staff before the GAO received the judgments of the Society of Professional Journalists. As a result, our side of the story was simply not heard.

Why, one may ask, do these allegations persist with *Stars and Stripes*? The reasons no doubt run the gamut from employees who are genuinely concerned with specific editing decisions to disgruntled employees with intra-staff scores to settle. Scrutiny by Congress is also not new. Similar charges have been investigated in the past and the newspaper was found to be doing its job, and doing it well.

Because *Stripes* is chartered and partially funded by the United States Government, we apply specific guidelines to ensure fair and impartial news and information reaches our audiences. These troops and their families in their often cloistered overseas environment have diverse backgrounds and interests that we must attempt to satisfy with our one newspaper. For example, *Stripes* ensures that the broad spectrum of editorial opinion, from conservative to liberal, from wire and syndicated services, is provided to our readers. It is just this balance of mixed editorial writers and opinions that permits *Stripes* to provide our readers with a service found in other reputable newspapers stateside. This balance also argues against the charges of censorship.

Quite simply, however, the guidelines cited above and the newspaper's military aspects are what make *Stars and Stripes—Stripes*. No other newspaper is so uniquely qualified to provide the same service to our people. No other paper provides the local military and sports scene or the diversity of news from around the world, and throughout the United States, that is of direct interest to our readers. The purpose for our editorial guidelines is to protect the readership from the possibility of Government bias; our mission is to report the news, not make it. The mix of civilians and military on the staff, at all levels of the editorial process, is to ensure competence both in the journalistic preparation of this unique paper and in the reporting of professional news to a professional military audience.

The crux of these issues is whether or not *Stars and Stripes* should be a unique and professional institution serving a unique and professional audience. Removing all differences between *Stripes* and other newspapers would be a simple thing to do. The question, then, in a world where *USA Today*, the *International Herald Tribune*, the *Asian Wall Street Journal*, and other English language papers exist overseas, would be why another newspaper no different from these would be needed. The answer is that they simply do not satisfy the particular needs of our audience the way *Stripes* does.

It is our belief that the military readership's need for *Stripes* is as strong today as ever. It is also our belief that we can and do meet our responsibility to report the news of the world accurately and impartially. Finally, our readership votes on this subject with its money every day. Their yes vote, a vote of trust and confidence, is reflected by the newspaper's increased sales.

Gentlemen, I believe in the First Amendment. As a matter of fact, I've taken an oath to defend it and the rest of the Constitution. No one, absolutely no one takes the mission of Pacific *Stars and Stripes* more seriously than I do.

I appreciate this opportunity to be here with you today to tell the story firsthand of this important morale instrument for our tens of thousands of men and women serving in the Pacific theater.

Mr. HUTTO. Thank you, Colonel Montgomery and Colonel Cook.

We've heard a lot today about censorship and defining censorship.

I'd just like each of you to give me your definition of censorship.

Colonel MONTGOMERY. Sir, from my standpoint in looking at this, I would define news management and censorship being a further step along that line as being any deliberate attempt during the editing process to convey a false or misleading impression of what has actually happened to the reader.

Mr. HUTTO. You haven't, your newspaper has not done that, I take it?

Colonel MONTGOMERY. No, sir. We certainly have not.

Mr. HUTTO. Colonel Cook.

Colonel COOK. I would take what Mr. Rizer said and add perhaps one word, and that would be calculated withholding of unfavorable news. Presumably, this would be news that in this case would relate to the military chain of command.

In terms of news management, I think that would be defined as presenting the news in an unbalanced fashion so that the full facts of the situation are really presented perhaps in a more favorable light for the military if it were a negative story.

Mr. HUTTO. Colonel Montgomery, I commend you on the management from bringing it from the red into the black and increasing your circulation. I take it that there was a morale problem probably on the staff when you took over?

Colonel MONTGOMERY. Yes, sir, there was a significant morale problem. Frankly, I wish I could tell you that it was solved.

Mr. HUTTO. That's what I wanted to ask you about.

Colonel MONTGOMERY. Well, sir, I think as long as this particular cloud hangs over our head, it's going to be very difficult for *Stripes* to have high morale on the staff.

Mr. HUTTO. By the "cloud," you mean the allegations?

Colonel MONTGOMERY. Yes, sir. The continuing allegations in public, press reports, and this kind of thing.

Mr. HUTTO. Where are most of the allegations coming from? I think you indicated earlier that some of the employees were making them?

Colonel MONTGOMERY. Sir, I believe that nearly all the allegations that were looked at by the GAO came from employees of *Stripes*.

Mr. HUTTO. From the employees?

Colonel MONTGOMERY. Yes, sir.

Mr. HUTTO. What's it going to take to turn that around?

Colonel MONTGOMERY. Sir, I think what we're doing with the paper is proving itself everyday. In other words, the fact that we're operating successfully and the fact that I think we have or are well on our way to restoring our credibility with our audience.

We have certain employees who have an agenda. Their agenda is to remove all military influence over the newspaper.

Mr. HUTTO. I take it they are civilians, then?

Colonel MONTGOMERY. Yes, sir.

Mr. HUTTO. What is the mix of civilians and the military?

Colonel MONTGOMERY. We're about half and half on the newspaper. However, in nearly all of the supervisory positions, we have civilians. In other words, all of our bureau chiefs, our desk editors, the assistant managing editor, the managing editor, they are all civilians.

Mr. HUTTO. Is most of the conflict between military and civilians? Is that your assessment?

Colonel MONTGOMERY. From time to time, I see indications where there may be some friction between military and civilian, but frankly I think that portion of the staff seems to work fairly well together.

I think what we have here is a feeling on behalf of the civilian journalists who come to work for *Stripes* that *Stripes* should be exactly like other newspapers. In fact, we're not exactly like other newspapers, we're different.

Not in the First Amendment, sense, sir. Let me hasten to say that. But in the fact that we are a Government newspaper and that makes us different.

Mr. HUTTO. You are a Government newspaper.

Now, do you have frequent sessions with your civilian—what is the highest civilian position on the *Stars and Stripes* in the Pacific?

Colonel MONTGOMERY. The highest civilian position actually is my general manager who oversees the greater portion of our business operations. The other position of nearly equal rank is the managing editor, a civilian managing editor of the newspaper.

Mr. HUTTO. Are you over each of those?

Colonel MONTGOMERY. Yes, sir, I am.

Mr. HUTTO. Do you have a good rapport with the general manager and the managing editor?

Colonel MONTGOMERY. I believe I do, sir.

Mr. HUTTO. Do you discuss these problems with them?

Colonel MONTGOMERY. Oh, yes, sir. I don't believe they are the source of the allegations, if that's what you're asking.

Mr. HUTTO. Well, I'm getting around to asking, do these people have the authority to fire civilians who are causing trouble?

Colonel MONTGOMERY. The way the system is, sir, the people who work for *Stripes*, because they are Government employees, they are civil servants. As a result, you cannot simply remove someone from a position because you believe someone else could do that work better.

Civil servants, you have to go through a very long and complicated process that was established to protect civil servants, but it does make it very difficult to remove them unless their performance is so poor that it can be documented on a continuing basis.

Mr. HUTTO. What about transferring, is that also involved?

Colonel MONTGOMERY. No, sir. We're a very small staff. The only offices we have external to the headquarters are in our bureaus. These are small, two-person bureaus in various places. We have bureau chiefs there in those positions.

Mr. HUTTO. How many people do you have? What's the total personnel count, military and civilian?

Colonel MONTGOMERY. At the headquarters and counting the bureaus, about 245, 246.

Mr. HUTTO. 245 total?

Colonel MONTGOMERY. Yes, sir.

Mr. HUTTO. What's the break down between military and civilian?

Colonel MONTGOMERY. Well, most of those employees I mentioned are Japanese nationals who do the technical work.

Mr. HUTTO. Most of the employees are?

Colonel MONTGOMERY. Yes, sir. Now, for our military and civilian, we're a mix of about between 40, 42 of each military and U.S. civilian.

Mr. HUTTO. OK. What's your situation, Colonel?

Colonel COOK. We have about 700 people total, 25 of whom are military. We have a different method of——

Mr. HUTTO. 700 total?

Colonel COOK. Yes, sir.

Mr. HUTTO. How many are military?

Colonel COOK. About 25.

Mr. HUTTO. Only 25.

Colonel COOK. The military people are largely involved in the editorial process. There are about 80 people in editorial so it's roughly 25 percent of the editorial staff are military.

We have a somewhat different method of doing business in Europe than the Pacific does. We distribute a lot of our materials through our own resources, through our own vehicles and drivers, rather than hire outside sources to do it. That accounts for some of the differences in the personnel strengths.

Mr. HUTTO. Are most of your employees Europeans?

Colonel COOK. About two-thirds of the civilian employees are local nationals, and one-third would be U.S. civilian. Local nationals are involved primarily in the warehousing work and the printing of the newspaper and the job shop operation.

Mr. HUTTO. Mr. Ray.

Mr. RAY. Colonel Cook, do you have the same morale problem in your area in Europe that Colonel Montgomery does?

Colonel COOK. Sir, I think we, like any organization, have our ups and downs. We have days when we wring our hands. I think there was a morale problem within the organization when I arrived there, but I don't know that it was necessarily due so much to the editorial issues as it was to a lot of external factors.

I think it's much better than it was. It's not all roses at this point in time, but I think the organization has improved.

Mr. RAY. But you think it's kind of average? I mean, you're always going to have some problems, is that what you're saying?

Colonel COOK. I think we have a good organization and generally happy people.

Mr. RAY. Colonel Montgomery, you believe your situation is a lot worse than it ought to be?

Colonel MONTGOMERY. I think it's only with a handful of individuals, sir. I think that the general attitude of the staff, as I pointed out, is a very positive one. They do very fine work.

The thought I was mentioning comes from this handful of people.

Mr. RAY. I notice that the Rosen Commission had mentioned that it costs more to print the advertising in the *Stars and Stripes* than the income. Is that right?

Colonel MONTGOMERY. No, sir. I did not agree with that particular finding.

Mr. RAY. I see. Good.

What does a page ad like that sell for about?

Colonel MONTGOMERY. I'd have to take that for the record, sir. I'd be glad to do that.

[The following information was received for the record:]

Newspaper black and white	$750
Newspaper full color	$1,050
Sunday Magazine black and white	$900
Sunday Magazine full color	$1,200

Mr. RAY. OK. But you disagree with that. You think that you're making money on advertising?

Colonel MONTGOMERY. Oh, yes, sir. As a matter of fact, we would like to get more.

Mr. RAY. I see.

Colonel MONTGOMERY. As I say, most of our support has to come from self-generated revenue and if we are to try to be self-sufficient as possible in this age of financial strife, we need to have more opportunities to generate revenue.

Mr. HUTTO. Would you yield just a moment on that point?

Mr. RAY. Yes, sir.

Mr. HUTTO. You obviously have a sales staff, then. How big is that?

Colonel MONTGOMERY. It is three people right now.

Mr. HUTTO. They are civil service, they can't work on commission or anything like that, can they?

Colonel MONTGOMERY. No, sir, they're civil servants.

Mr. HUTTO. OK, thank you.

Mr. RAY. The *Stars and Stripes*, made a profit last year, I think I've heard you say. Do you have substantial cash reserves, adequate cash reserves?

Colonel COOK. We have a number of different projects that were planned. We have significant cash reserves at this point in time but they are earmarked for specific improvements like purchasing a new offset printing press.

Mr. RAY. I see.

Colonel COOK. We don't actually have enough cash reserves at this point to meet all our needs in the next 5 years, however.

Mr. RAY. Kind of what range are they in?

Colonel COOK. Approximately $17 million.

Mr. RAY. $17 million.

The paper increased in price to 25 cents from what figure?

Colonel COOK. From 15 cents.

Mr. RAY. OK. Did that have any effect on circulation?

Colonel COOK. Yes. It went down initially about 3 to 4 percent, and it took about 8 months and it basically went back to the same level. Circulation has grown very slightly in the last several years but not anything significant.

Mr. **Ray**. I see. Now, have you conducted a readership survey in recent years?

Colonel **Cook**. Not in the last several years. We have one that's working right now.

Mr. **Ray**. I think it's important, too.

Colonel **Cook**. Absolutely, sir.

Mr. **Ray**. All right, sir.

Now, regarding the bookstore operations, we have some information that there's about $15 million in obsolete inventory in the bookstore operations. Would you agree with that figure?

Colonel **Cook**. Not at this point in time. We have a total inventory at any one time of about $11 million, that's materials that are in transit and are out in the bookstores. Old material is eliminated from the source.

Mr. **Ray**. I see. What do you do with that? Do you give it to libraries or something of that nature?

Colonel **Cook**. No. Hardback books are returned to the publisher. Paperback books have to be destroyed, as do magazines. That's our agreement with the Commercial Publishers.

Mr. **Ray**. I see. The *Stars and Stripes* has a New York Office?

Colonel **Cook**. Sir, we have a New York Office of about 20 people.

Mr. **Ray**. What does it do?

Colonel **Cook**. Primarily, they're involved in liaison with the publishing industry, and they're also involved in onward shipment of freight overseas.

Mr. **Ray**. Civilians and military?

Colonel **Cook**. It's strictly a civilian operation.

Mr. **Ray**. Is that overhead pretty high, costly operation?

Colonel **Cook**. Not really. I think it's a very efficient operation generally, and it's important in order to get the materials moved over quickly. I think that they more than make up for——

Mr. **Ray**. Is it located in a high-rent district, or where?

Colonel **Cook**. Not really, no. It's in a Federal building, the actual office itself, but most of the people are out in the warehouse which is in Bayonne.

Mr. **Ray**. I noticed that you made a fairly good profit on your books last year, $2.3 million. But you've discontinued the 5 percent discount. Is that for——

Colonel **Cook**. The profit in 1988 was actually $1.9 million, and in 1987, it was $3.2 million. The 5 percent discount was discontinued before I arrived. I might add that in 1986, European *Stars and Stripes* had a deficit of about $100,000.

Mr. **Ray**. I see. So you've been overcoming that?

Colonel **Cook**. Yes, sir.

Mr. **Ray**. Is circulation now up or down?

Colonel **Cook**. Circulation is probably up slightly. The sales in the bookstores are up significantly. That's similar to the experience that the exchanges have had.

Mr. **Ray**. Thanks a lot, sir.

Mr. **Hutto**. Mr. Lancaster?

Mr. **Lancaster**. Gentlemen, I think the root of the problem here is your definition of censorship.

Colonel Montgomery, I was very disturbed by your definition of censorship, simply making sure that you don't publish anything false or misleading. That's not censorship, that's just good editorial policy.

Is that your definition of censorship?

Colonel **Montgomery**. I think I described that as news management—with censorship then being the next step, which would be actually withholding something from the paper, but for the same reason: to give a false and misleading picture of what's going on. That certainly is what you do with censorship in war time. You withhold information that would allow people to have a full and complete picture of what's happening.

Now, what I took issue with in my statement was the manner in which the GAO defined censorship which was literally any time a story is killed or shortened for any reason other than national security. Frankly, every newspaper in the country everyday makes decisions on what stories play and don't play and how long the story should play, depending upon their news value. That's not censorship.

Mr. **Lancaster**. Well, can you explain why the Pacific *Stars and Stripes* did not run the following stories, which European *Stars and Stripes* did?

The Sergeant York—gun problems, flaws in the B1B bomber, the Marine spy scandal, fraud in the military clothing procurement office. Why would you not choose to run those when the European edition did?

Colonel **Montgomery**. Well, there are two things, sir. First of all, I did not choose not to run those stories. I'm not sure we even got them. As I pointed out, the wire services that we get are not identical.

Now, the way——

Mr. **Lancaster**. These are pretty big stories. I mean, these are stories that appeared in every newspaper in the country and appeared in the European edition. Why didn't they appear in the Pacific edition?

Colonel **Montgomery**. The test there took a sampling of 1 month, and we have certainly carried stories about the Sergeant York and the others. Now, whether or not we carried that particular story is something entirely different. The way news is gathered in our organization is very similar to the way it's done in any newspaper in the world. Basically, we have the wire editor come in, sit down very very early in the morning and review all of the stories that come over the wires at night.

The news editor comes in and sits down and reviews the wire editor's work, and together they take a look at what they think ought to go in the newspaper for that day. Now, they plan what we call a budget, and then that budget is discussed with the managing editor who gets copies from both AP and UPI of the budget that they think should be in the newspaper. Finally, after all that is done, a meeting is held, and it's the first time that I or my deputy editor-in-chief get involved in the situation.

What I'm saying is, is that the decision, the review of the wires, and the decision as to what should play is done under professional civilian supervision.

Now, as to why we did not play a particular story, I have no idea. But what I would hazard as a guess is that these people who are professional journalists made a judgment that something else was more important, if in fact, they even got that story over the wire.

Now, the allegations that they—I have quite a bit of difficulty with the GAO study, as you might have gathered. I would be willing to go into some more detail on that. But all I can say is the decisions as to what goes in the newspaper are made as they are made in any newspaper in the world.

That process was followed in this particular case. It was very interesting to me to read the allegations of military censorship, as this was done under civilian supervision.

Mr. LANCASTER. What role does the military editorial staff play if the final decision of what goes in the paper is made by the civilians?

Colonel MONTGOMERY. No, not the final decision, sir. The final decision or the final responsibility for what goes in the newspaper is clearly mine. But I don't get in and micromanage that news gathering operation. First of all, it would be, I think, counterproductive for me to do that.

Mr. LANCASTER. What kind of guidelines do you give to your civilian employees about what to include and what not to include?

Colonel MONTGOMERY. Their judgment as to what they think is newsworthy. What they're paid for is to exercise their judgment. Now, I, on occasion, may disagree with that judgment. When we have the budget meetings, we sit around in a collegial fashion and we discuss the news of the day. We talk about any recent or rapid breaking things we might have picked up on the radio or this type of thing.

But by and large, the news is gathered just as I said earlier. The only thing I would say about your concern over why the specific stories listed by GAO didn't run, is that without knowing exactly what story they were talking about on a given day, I'd have to go and look at what else was available. Then I'd have to ask that particular wire editor why he picked one story over another.

Mr. LANCASTER. Colonel Cook, you indicated that censorship was the calculated withholding of unfavorable information. What about the calculated withholding of favorable information, which may simply not fit in with what story you might want to be telling?

Colonel COOK. Yes, sir. Of course it could be looked at in that context. I think the reason I added the additional word was simply from the vantage point of how I believe these allegations have been made of censorship and news management. It is related more to issues that perhaps reflected unfavorably on the military than favorable stories.

Mr. LANCASTER. Well, of course, it appears to me from the study that there have been prohibitions placed on political reporting, political polling, stories about the Armed Forces Broadcasting Network, no investigative reporting.

Why is that not censorship? Would both of you comment?

Colonel COOK. I think it could perhaps be argued that that is censorship or news management. I personally disagree with the prohibition, for instance, on no independent political reporting, because I think that's something we do as a matter of course at the European *Stars and Stripes*. We cover European politics as they pertain to the audience.

There are other things I think that relate to the definitions in both the Department of Defense and the European Command Directives that I think we need to work on in this review process this year to better hammer down the definitions.

Mr. LANCASTER. Colonel Montgomery, you indicated that your problem employees were limited in number. But as I also understood your comments, you indicated that your civilian employees were mostly Japanese nationals. Is that correct, or is that just in the production side?

Colonel MONTGOMERY. No, that's in the production side, accounting and comptroller.

Mr. LANCASTER. The editorial civilians are U.S. citizens?

Colonel MONTGOMERY. Yes. We have a few Japanese nationals who work on the library staff, archives and files.

Mr. LANCASTER. This is really not related to the subject of censorship, but just trying to think through with you how you might make more money.

Would it be possible to contract out the selling of advertising so that sales incentives and commissions might be used by civilian contract workers for selling ads and you simply are printing what the contractor sells, rather than using civil service employees?

Colonel MONTGOMERY. Sir, we have no trouble selling advertising. Our problem is we're very constrained in the amount of advertising we can do. In other words, the individuals we have that are hired to do it are not held back by size or by the fact that they get paid a civil service salary.

Mr. LANCASTER. But it's my understanding that you would like to have more sales. If you would like to have more sales, why don't you have more sales?

Colonel MONTGOMERY. Because we are constrained as to whom we, and with whom we, can advertise.

Mr. LANCASTER. Why?

Colonel MONTGOMERY. The United States Congress has done this, sir.

Mr. LANCASTER. In what way?

Colonel MONTGOMERY. We are limited in the manner in which we can advertise. We cannot right now do what they call brand building advertising. We can only do product availability advertising. Only then for things that are specifically available to our military audience.

The reason that's done or the justification is that, because we receive some Government support, we shouldn't be in competition with other commercial enterprises that do not receive Government support.

For example, I can advertise a Zenith Radio Model such and such for sale in the Exchange at a certain price. But I can't just have a full page ad saying, buy Zenith radios. I can't do any brand building advertising.

Mr. LANCASTER. There is actually a congressional mandate to that effect or is it by regulation?

Colonel MONTGOMERY. Yes, sir, that's congressionally determined.

Mr. **Lancaster**. So how could you get, I'm not following your statement that you would like to have more advertising.

Colonel **Montgomery**. Sir, what we are saying is if we could do things like brand building advertising, if we could do run-of-the-paper advertising, which we are not permitted to do right now, we would be able to sell more advertising. We have no problem finding advertisers.

Mr. **Lancaster**. If each of you would, please describe for me your chain of command and to whom you report and to whom you're responsible for your editorial policies.

Colonel **Cook**. My direct supervisor is the U.S. European Command Chief of Staff, Lieutenant General—I can't even think of his name right now. At any rate——

Colonel **Montgomery**. Richards.

Colonel **Cook**. No. General Richards was the——

Mr. **Lancaster**. His name will be in tomorrow's edition.

[Laughter.]

Colonel **Cook**. But then my next line supervisor is the Deputy Commander in Chief of the U.S. European Command. Theoretically, I am responsible also to General Galvin, the Commander in Chief. On a direct day-to-day basis, though, the Chief of Staff is my supervisor.

Mr. **Lancaster**. Have you ever had anyone in the chain of command discuss with you editorial policy?

Colonel **Cook**. Yes, sir.

Mr. **Lancaster**. Have you had stories that you printed questioned by your chain of command?

Colonel **Cook**. I've had a number of discussions with General Richards and with General Leland about content of the newspaper. At no time, did they suggest that we not include any story or that we should refrain from certain kinds of reporting.

Mr. **Lancaster**. What was the nature of the conversation, then?

Colonel **Cook**. It dealt more with issues of accuracy and balance and ensuring that we followed the regulations that are outlined——

Mr. **Lancaster**. How can you talk about balance without talking about stories that you did include and stories that you didn't include?

Colonel **Cook**. Excuse me. I must have conveyed the wrong thing. But we did in fact talk about specific stories that were in the newspaper and they involved a variety of different issues. It was also a philosophical kind of discussion.

Mr. **Lancaster**. What is the philosophy of the command?

Colonel **Cook**. Basically that because *Stars and Stripes* is the single newspaper that most people read that we have a special obligation to make sure that we are accurate and balanced and that we present all sides of a question.

Mr. **Lancaster**. Colonel Montgomery?

Colonel **Montgomery**. Sir, I report directly to the Commander in Chief of the Pacific Command, Admiral Hardisty. Now, obviously, when I liaise with that office, I don't do it directly with him everyday. I work through the CINCPAC Public Affairs Office. The CINCPAC Public Affairs Office, as mentioned earlier here, they chair the semi-annual advisory council meetings. We have ours just twice a year.

As to the philosophy of Admiral Hardisty and Admiral Hays before him, I've received extremely strong command support. Periodically, the CINCs, before I arrived and since I arrived, have sent out messages to the commanders in the field and although the language is much more courtly and proper, basically the message is this.

Stars and Stripes is a First Amendment paper. I hold the commander and editor-in-chief responsible for *Stripes* adhering to the highest possible journalistic standards. If the paper does not adhere to those standards, then he is answerable to me.

To his commanders he says, I realize that having a First Amendment paper occasionally presents difficulties for you because we publish unfavorable as well as favorable news. However, that's the price of a free press. If you have problems with the newspaper, please report them. I'm interested in hearing them. But tell me about them, don't try to run the paper.

As I say, that message goes out on a recurring basis as a reminder, and that's probably the reason why I have not had the external pressures that I described in my opening statement.

Mr. LANCASTER. What conversations have you had with the command structure with regard to stories that you either printed or didn't print?

Colonel MONTGOMERY. I basically have not had contact with them. Jeff and I have a somewhat different situation. He's in Germany and his boss is in Germany. I'm in Tokyo and my boss is in Hawaii. That's five time zones and a day away. My boss doesn't read the newspaper until he gets it by mail because we don't sell in Hawaii. It's considered "stateside", so we don't sell there.

If you talk about being given enough rope, I certainly have enough rope.

[Laughter.]

Colonel MONTGOMERY. As a result, I don't get a whole lot of, as the Navy would say, rudder orders on how the paper should go. I do have the Advisory Council meetings twice a year. I certainly get feedback from a lot of sources. We get letters to the editor from people in all levels, ranging from low to high.

Mr. LANCASTER. At these conferences, have you had discussions with the command structure with regard to stories that were either printed or not printed at the previous 6 months?

Colonel MONTGOMERY. Yes, sir. Basically, of course they don't really have any idea of stories we didn't print.

Mr. LANCASTER. Well, they know if they read them in another paper and they didn't see them in your paper?

Colonel MONTGOMERY. No, sir. As I say, I take issue with that. We certainly have covered all of the things that are covered in those subjects listed by the GAO, and the fact that we may not have run a particular story is almost irrelevant to me. I'd have to see what time of day that story came across the wire. We're on opposite sides of the world. We get our wire news at different times. I can guarantee you that those issues have been covered in Pacific *Stars and Stripes*.

As I say, I'm very troubled by the GAO investigation.

Let me say one more thing about the content analysis. Because the process for gathering the news is as I described it to you when we were asked to comment upon the GAO draft report, I didn't comment on the content analysis section. I went to my managing editor and assistant managing editor and said, gentlemen, they're attacking you. Will you please comment on it.

The greatest umbrage they took was the implication that two newspapers on opposite sides of the world serving different audiences and certainly with different local concerns and everything should be graded on how close alike they were.

Mr. LANCASTER. Of course, none of these are local concerns.

Colonel MONTGOMERY. As I say, sir, we've covered those issues. We may not have covered that particular story that particular day.

Mr. LANCASTER. I have no further questions.

Mr. HUTTO. Thank you, Mr. Lancaster.

Colonel Montgomery, I think you should have an opportunity to respond to testimony that will be given later by some of the journalists.

One of them says many of our enlisted journalists have actively supported and encouraged the civilians who complained to Congress. Some of these military staffers have been badly mistreated for writing honest stories while others have had their military careers ruined.

Would you comment on that?

Colonel MONTGOMERY. I'm only aware of one such allegation, sir, and it occurred before I arrived on the paper. Now, I know a little bit about it because the gentleman involved was just finishing his tour and left just, we overlapped by 2 or 3 months, I think.

Mr. HUTTO. What do they have, about a 3-year tour of the military?

Colonel MONTGOMERY. Two years unaccompanied and 3 years accompanied, normally, unless they extend. A lot of them extend, in fact. I have several that are on extension right now.

Mr. HUTTO. Yes. But the incident you are talking about happened before you came?

Colonel MONTGOMERY. That particular incident, yes, sir.

Mr. HUTTO. Mr. Waters of our staff has some questions.

Mr. WATERS. I just have one question, Mr. Chairman.

Colonel Montgomery, in your statement, you take umbrage with the GAO report and give four reasons, three of them I think have been covered. The fourth one, which I'll summarize, more or less indicates you were not presented with the facts before they sent them to the Society of Professional Journalists. Is that correct?

Colonel MONTGOMERY. Yes, sir, that's correct.

Mr. WATERS. I intend to take that up with the GAO, but the reason I bring it up is a long time ago when there wasn't the General Accounting Office, it was always our policy to get the facts agreed to at the lower level before it came up further.

This disturbs me, but at the same time, I want to offer you the opportunity to provide for the record your side of the story.

Colonel MONTGOMERY. Yes, sir, I'd be happy to do that.

Mr. WATERS. Any issues you want to bring up, or maybe we should get GAO to come back and talk to you.

So what you're saying is, they gathered the facts and then they left without giving you the opportunity to determine whether they were true, is that correct?

Colonel **Montgomery**. That is the case, effectively. If you'd like for me to take a couple of minutes, I can describe the process.

They were with us for 3 weeks. Toward the end of the 3 weeks, the last 3 days, they came in and sat down with me. They reviewed a number of what were obviously allegations.

But the manner they did it was this: they would sit down across from the desk and they would show me a piece of news copy and say, why did you make this particular editing decision. I'd look at it and if I remembered—some of these issues were well over a year old, and some I remembered and some I didn't. Those I remembered, I'd say, well, as I recall, this is why I did this particular thing.

Then I would ask them, all right, now, I've told you why I made this particular editing decision. Could you tell me please what the allegation is, what was wrong with that? They would not tell me what the allegation was.

Now, they went through a number of these things, I think a couple of hours a day each day for the last 3 days. At no time did they go any further in the questioning. In other words, the main point that they were missing is there's a great deal that goes into an editing decision that they were not seeing, and certainly they could not get that from me from my memory.

For example, let's say a given story was not played: what other news that day was competing with that particular story? Obviously, I couldn't get that off the top of my head. They gave me no time to go back and research, nor did they even indicate an interest in having me do so. They took these papers with them.

Now, I really expected them to come back and ask me more detailed questions. I thought, well, this is just a preliminary questioning period; they'll come back. As the weeks went by, it was obvious they were not coming back. So I wrote to them and I said, I would please like copies of all of the things that you showed me so that I could do some research on them.

It took them about a month but they eventually agreed. As it happened, I was coming back to Washington to a conference, and so I came and picked them up myself. At that time, Colonel Cook and I also had an appointment to go over and see one of the gentlemen who was on the Sigma Delta Chi panel, and I found out that they'd already made their evaluations of these allegations.

Even when the GAO gave me the materials; they did not give me the allegations. They'd give me a news story, let's say, and then on the cover sheet on it, they would have a space where they would say, "allegation", and then Colonel Montgomery's comments. They in some cases would summarize what I had said back in Tokyo when I was asked to comment on that story. Either this is what he said, or he didn't, couldn't recall the situation.

In each of those cases on the cover sheet, the space for the allegation had been blotted out. So I still did not know what the specific allegation was.

Now, I took the materials back and I put together a very detailed summary. My overall thesis is that had the Sigma Delta Chi people had the benefit of this, then they would not have made the judgment that they made.

Mr. WATERS. Colonel Cook, did you go through the same process, or was yours different?

Colonel COOK. Well, basically they were with us about 3 weeks. They visited field locations to visit the unified command and the component commands, and they spent a great deal of time with us. They had brought with them a number of allegations that they looked at. They narrowed it down to 12. They interviewed a broad range of people on the Staff. I suggested additional people that they might want to consider interviewing. They interviewed me and my Deputy editor-in-chief as well as the managing editor.

The day before they left, they presented me with a draft of what they had found, and I was given an opportunity to comment on that draft, which I did. But of course, at this point, the organization hadn't really gotten both sides of the world together. So they really didn't know at that point what had gone on in the Pacific.

I think the ultimate report that did come out was referred back to us through the Unified Commands and the American Forces Information Service for comment. We did in fact have our opportunity to comment on it fully.

Mr. WATERS. Colonel Montgomery, did you have an opportunity to comment on the draft?

Colonel MONTGOMERY. Oh, yes, certainly. It was rather interesting. The study was supposed to take 3 months; it took ten. We were then given effectively, what was it, 4 days, 5 days to comment, which we did to the best of our abilities. Frankly, I was satisfied with what we sent forward up to the Pacific Commander.

Mr. WATERS. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Waters.

Mr. Cofer.

Mr. COFER. Mr. Chairman, I have two questions.

I visited the *Stars and Stripes* in Germany a number of years ago. We had a delegation that visited the *Stars and Stripes* in the Pacific not too long ago.

Several things popped out to me in my observations, and it's mostly in Europe. But I think we can extrapolate it to Japan.

I found, and I don't want this to be taken the wrong way, a number of civilians who had been there for many many years, 25 and 30 years. I was there on a management review, and I found these people to be generally outdated in management philosophy; they were not forward thinking. At that time, they had asked the Committee for two buildings. Those buildings were completely unjustified based upon the information. There was no master planning. The organization was in management chaos. I think Mr. Daniel later wrote back on that.

In the bookstores, we were buying University of Maryland books and the professors never put on the courses, and we were eating the books.

I get the feeling that we're going to leave this hearing and we're still going to have the problem of censorship and nothing's going to be resolved.

I ask the question to you, can we continue to operate that way?

But more profoundly than that, it seems that we should need some rotation. We don't send people into logistics or supply and once they get there, they just stay there forever. You become stagnant.

Mr. **Hutto**. You do in civilian positions, a lot of them.

Mr. **Cofer**. That's what I'm talking about, Mr. Chairman.

Mr. **Hutto**. I know it.

Mr. **Cofer**. But then on top of that, you get a new commander who comes in every 3 years. So you have the work force who feel that they're running the paper; they are very stable, have been there a long time. The ones whom I talked to were more German than they were American because they had been there so long. The question in my mind is how could they even report the news?

How are you going to correct this situation? How are we going to let the American troops know that they have a valid paper? How are you going to restore integrity and a good working relationship in the paper? What do you think has to be done to put this to rest so that next year we won't have another allegation against *Stars and Stripes* that there's censorship?

Colonel **Montgomery**. Well, sir, I think the way for the paper to sell itself is by itself. In other words, if you have a good product, the people are going to buy it.

Mr. **Cofer**. They'll still get inquiries in Congress that there's censorship.

Colonel **Montgomery**. As long as you have people who have axes to grind or intra-staff scores to settle, they can always try to justify that by hanging it on a censorship "hook".

When I first arrived at *Stripes*, there were three very young and inexperienced journalists who had been hired just 6 months previously in an optimistic expansion. Now the paper was operating in the red and a decision was made that those positions were going to have to be dropped. They had written to Congress saying, this is an example of censorship, our positions are being removed.

Now, anybody can hang their hat on that if they choose to. Now, to me, what can change things is if we come out of this with someone having looked at it and say, as most everyone has with the exception of the GAO, "We've looked and there isn't any censorship there. Look and read the paper." That's what I always tell people. I say, I'll let *Stripes* speak for itself. I'm very proud of the paper. I think it's getting better all the time.

Mr. **Cofer**. What I'm trying to get to, Colonel, is is it healthy to let people stay in that organization 20 or 30 years?

Colonel **Montgomery**. That's a rhetorical question. The idea's just like anything else. there's some good and bad to it. It's helpful to have a corporate memory. On the other hand, as you point out, some of them will "retire on duty".

I really think that that should be a management decision. Frankly, I would like to have the authority to be able to move people.

It's interesting, in my particular case, going into Pacific *Stars and Stripes* as I did, with the situation, if I had been a military officer going into a military organization that had just flunked its operational readiness inspection, was on its back and we had to bring it back up—I could have gone in and gotten rid of my staff and brought in a new staff that I knew would work.

If I was a civilian going into a civilian organization in the same situation, I would have had the ability to hire and fire. But in this situation coming in and working as we are with civil servants, that option was not open. I had to play the hand that was dealt me.

Now, what I had hoped is that by going in and convincing these people that as far as I was concerned the past was bygone, we could start over fresh, and all I was interested in was them doing their jobs to the best of their abilities. We'd work on the paper.

I'd hoped that I could calm their fears, their concerns, and we could get together and work as an organization. By and large that has worked. As I said, I think the number of people who have these axes to grind has decreased. I think the paper is proof that things are better.

I'm very proud of the paper. I'm very proud of the current leadership we're getting from Mr. McDonald, for example, who's come in recently as assistant managing editor and has a lot of good new ideas on things that we can be doing to make the paper better.

I have a difficulty with the handful of people who remain that have problems, but these people are gradually, over the course of time, leaving.

Mr. COFER. Colonel Cook.

Colonel COOK. I think I would basically agree with what Colonel Montgomery has said already. That's one area that I wish we could make some changes in and do something about the tendency of some people simply to retire on active duty, as it were.

There aren't very many of them, and there are many civilian employees in European *Stars and Stripes* that have been there many years that are forward thinking and innovative. But the system basically just does not permit us as managers to deal with the small percentage that might not be living up to the standards, that don't have innovative ideas and that don't come to work with an idea, what can I do to make the place better today.

That's the one thing I would like to see changed in the system is adopt the appropriated fund approach, basically, which is that after 5 years or x number of years in Europe, you remain in the organization at the convenience of the management.

Now, there has to be some consideration given to the fact that there aren't very many rotational opportunities for many of our employees, particularly editorial. They can go to the Pacific or they can go to Europe, and that's about it. There aren't any jobs in the States within the nonappropriated fund system. So maybe some changes in the ability of employees to go from appropriated fund to nonappropriated fund might help, too.

Mr. HUTTO. Are most of the employees happy people? Do they like what they're doing?

Colonel COOK. I think by and large, people are happy, yes.

Mr. HUTTO. You wouldn't have any way to motivate them, those you know who have just stagnated?

Colonel COOK. Sir, that's my job and the job of the other supervisors in the organization, but sometimes, I think it just gets to the point where it's about time for them to leave, and there's no mechanism right now within reason to have them leave.

Mr. HUTTO. OK. Well, we want to thank both of you very much for coming here and for your testimony today.

Thanks very much.

Our final panel, we will go ahead with now and obviate an afternoon session.

Our final panel is comprised of two former editors and the present editor of *Stars and Stripes* Pacific. Mr. Timothy R. Hutchens was the Executive Editor from 1981 until 1984. Mr. Paul S. Sherbo was the News Editor from 1984 until 1987. Mr. Dewey Brackett is currently the Pacific editor.

Let's see, you're Mr. Hutchens. You are Mr. Sherbo? You're obviously Mr. Brackett.

OK, gentlemen, welcome. I believe that you do have statements for the record, but if you will, please summarize those statements at this time.

Mr. Hutchens, I understand that you will give your testimony first.

STATEMENT OF TIMOTHY HUTCHENS, FORMER EXECUTIVE EDITOR OF PACIFIC *STARS AND STRIPES*

Mr. HUTCHENS. Thank you, Mr. Chairman, members of the Committee.

I'll summarize what I hope is already a brief statement, especially since I think some of the testimony and people who've been there more recently than I would be more valid.

For the record, my name is Timothy Hutchens. I've worked on newspapers most of my life, and I was Executive Editor of Pacific *Stars and Stripes* from January 1981 to January 1984. During that time, I was responsible for the day-to-day editorial content, as well as the production of the newspaper.

Although I have no firsthand knowledge of the recent censorship and news management that the General Accounting Office has reported, I can say that it sounds woefully familiar and that therefore the report sounds all the more credible.

In listening to the testimony this morning, and the questioning of the GAO's methodology, I'd just like to pose one question, or suggest that you think of one thing. That is that the methodology, whether or not it was flawed, appears as though it was evenly applied in both the Pacific and Europe.

I would wonder why the GAO came up with findings so much worse in Tokyo than they did in Germany.

Back to my time there, again it sounds as though the external pressure was as bad as it is, or might be worse even than it is now, although perhaps the internal pressure from within was less. But the effect often was the same.

The external pressure so often would cause the commander, and I wonder whether it still does, to start censoring himself in advance, to start, in other words, anticipating what he thinks his theater command and the subcommanders in the theater are going to want to read. After a while, it doesn't take too long to know what they want to hear.

Sometimes, indeed, it's baffling. I remember we got a new commander, an Army Colonel named Joseph Burliss, and his first week on the job, he was called down on the carpet by an Admiral Feld in charge of the naval forces in Japan. Chewed out for running a press release from Admiral Feld's own office on mustache regulations. Admiral Feld didn't like his own press release and he couldn't understand why Colonel Burliss and his staff couldn't exercise the same judgment.

So early on, I would submit, Colonel Burliss, as well as perhaps other commanders and editors-in-chief, started to cringe.

Some of the examples, and I'll cite just three or four in the interests of time, were almost comical. I remember John Lehman, the Navy Secretary, was visiting our Air Base at Misawa in Northern Japan, and he told the troops in a speech as he was leaving that they were a brave bulwark against the Soviet Pacific Fleet at Vladivostok. I was reading the copy from our correspondent as it was coming in on the wire. I asked somebody to call up to the Public Affairs Base at Misawa and find out just how far away they were from Vladivostok, and the reply was that the base couldn't give out that kind of information.

The other times, it was more serious. I think of particular interest to you, the Advisory Council would, in its meetings, I remember one time killing the idea of our running a story on comparative liquor prices at the PXs around the Tokyo area because they didn't want word to get back to Congress just how low the prices were.

Mr. Rizer brought up the coverage of team spirit, the big exercise in Korea, and the Reforger, the big exercise in Europe, how it's important to distinguish. I question the coverage of them at all. I remember, and these are all for examples, one time our correspondent in Korea covering team spirit was stonewalled by the U.S. Forces in Korea trying to cover a story of a ship that had gotten beached on the very beach at which thousands of troops were supposed to land. So the story that ultimately ran that day about troop exercise, a very big important troop exercise, was that there were no clouds in the sky, nothing went wrong. No word of why this exercise, or a large part of it was held up for half a day.

So when we talk about internal information, I want you to all remember then, and I suspect, now, that a lot of it is nonsense in its omission. It's not news, it's information that is flattering to the various commands and vanity plays an awfully awfully large part in the problems that we had then, and again, I suspect, now.

The censorship would come at every level. It could come from a junior officer who was I think doing the bidding of his commander, or it could come from some very big guys. John Wickham, while he was the Commander of U.S. forces in Korea, before he went on to become Army Chief of Staff, would call up our commander in chief on the weekend, get him off the golf course, for particular chewings out. This was in one case where Wickham had the Pacific Command investigate the newspaper for dereliction of duty. The charges were found baseless, but you can imagine what kind of affect this has, particularly on the uniformed people, from the editor-in-chief down to the sergeant who wrote the story.

These kinds of charges can be career ending.

Is this censorship? Is this news management? I'm not sure of the definitions of them either, or where one blends into the other. But this is certainly intimidation and certainly outside the spirit of the charter that the newspaper would operate as a free and uncensored publication.

I got into, and this is again a point that I'd like to drive home, is that I don't like to be here today. I don't like any of this to have to had taken place. I think the Armed Services Committee has a lot more to do than to administer the *Stars and Stripes*, but I'm afraid in this case, it's inevitable.

I spent 2 years trying to effect change administratively, and I think back in horror at my naivete at spending more than 2 weeks doing this. The only time I finally got results was when I drafted a complaint to a House oversight subcommittee for which I'd once worked.

The occasion was my getting a phone call from a General John Hudachek, who was the Chief of Staff for the U.S. Army in Korea at the time, saying that I couldn't mention the name of a base.

The base was one to which a hijacked domestic Chinese airliner had landed. It was a good story for us. It was in the theater, and it involved an American base. We had a good story compiled from United Press International and Associated Press all set to go.

Hudachek says that the name of the base is classified. I pointed out to him that he couldn't very well classify a whole base in the middle of Korea, and besides, the cat was out of the bag. AP and UPI already had the information as well as pictures of the jet liner on the tarmac and named the base.

Five minutes later, I get a call from the Pacific Command in Honolulu from the Public Affairs Office, saying, do what Hudachek says. We run a five-paragraph story, what was going to be our lead story, a very wooden little release. Again, then and now, I wonder what did any of this have to do with the prescription of censorship and news management in the Defense Department regulations.

Well, I complained of this and the complaint got to Henry Catto who was the Assistant Secretary of Defense for Public Affairs at the time. He acted on it right away. He called the Joint Chiefs of Staff's office which called the Pacific Command, which got word around the Pacific, cut this out.

By the end of the week, we were able to do some wonderful things. We were able to run a long, and I would say very balanced, series on family violence in the military which we had prepared but which the Pacific *Stars and Stripes* advisory council had vetoed.

I have the reasons which I'd like to submit to the record, along with some other materials. One of the reasons was because family violence didn't affect enough people. I noted bitterly at the time that at Osan Air Force Base that an airman was charged with beating his infant son to death during this time, and so it was with extra satisfaction that I got this relief.

We ran some other stories about problems that women in particular have in uniform, discrimination against women in the service, interviews with women, and interviews with personnel officers, all sides, all facets, I'd like to think of the story, but a controversial good reading stuff, the kind of stuff for which in most cases a young man or certainly increasingly so young woman would plunk down a quarter and buy the newspaper.

There's more in my statement, gentlemen, which I'm submitting, so I'll just skip quickly to the conclusions and get out. As far as the dual mission which the GAO identified and found some confusion about, I would ask you to consider that the *Stars and Stripes* simply in operating as a free and uncensored newspaper fulfills any requirement it might have to be a house organ, because there is no other newspaper that can really do this. *USA Today* has great stuff for the U.S. troops, but it's expensive. The last time I was in Asia, I think it cost a dollar, and I don't think they were discounting then. Maybe they are now, but it was still expensive, especially for lower ranking service people to ask them to spend more than a quarter a day or I don't know how much a subscription would be, is a big fight.

The *Herald Tribune* is also too expensive, and it doesn't contain enough news, I don't think, for an essentially U.S. audience looking for domestic American news. I heartily endorse the idea of civilian control of *Stars and Stripes* operations. I think it ought to report to the Armed Forces Information Service. Get it out of the theaters, where there's too much temptation to browbeat. If that doesn't work, give it maybe a year's trial, and if that doesn't work, see whether you could contract it out.

That concludes my testimony, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Hutchens.

Your statement will be put into the record.

PREPARED STATEMENT OF TIMOTHY HUTCHENS

Mr. Chairman and members of the committee, my name is Timothy Hutchens. I was executive editor of Pacific Stars and Stripes from January 1981 to January 1984, during which time I was responsible for the editorial content as well as the production of the newspaper.

Although I have no first-hand knowledge of the recent censorship and news management that the General Accounting Office has reported, I can say that it sounds woefully familiar and that therefore, the report sounds all the more credible.

Or incredible. Now -- as when I was in Tokyo -- I can hardly believe the hypocrisy and short-sightedness with which the Defense Department has viewed Pacific Stars and Stripes. During almost my entire three years at the newspaper, I had running skirmishes with various generals and admirals who wanted to kill -- or plant -- stories in the news columns despite the ill effect that such censorship and news management had on the newspaper's already battered integrity and despite clear military regulations that proscribed such abuse. This browbeating had been going on for decades in the Pacific, according to old hands on the staff, and the results of it were painfully obvious. Staff morale was terrible, and circulation was plummeting.

To make matters worse, the nominal head of the newspaper -- the military commander and editor in chief -- was helpless to withstand the high-ranking pressure. The Pacific Command in Honolulu, to whom the editor in chief reported directly, lent little or no support when the newspaper was under attack from the various subcommanders who, as general officers, outranked the colonel in charge of Stars and Stripes. I know that the Pacific commander -- a four-star admiral -- had other problems on his mind. Nevertheless, his priorities didn't make the browbeating any less of a problem for the newspaper or -- in the long run -- for the Pentagon.

In its quickness to accommodate general officers who have wanted to work their will on the newspaper, I doubt if the Defense Department ever thought that the newspaper's problems would come this far -- into your hearing room. But the problem has so chronically defied an administrative solution that I'm afraid your intercession -- even if it draws complaints of micro-management -- will provide the only answer.

Today I want to cite a few examples of censorship and news management during my time at Pacific Stars and Stripes and hope that they will provide some historical perspective to the even more recent matters at hand.

Some of the outside pressures to manage the news were comical. I remember once when John Lehman, the Navy secretary, was visiting Misawa Air Base in Northern Japan and told the troops in a speech that they were a brave bulwark as the first defense against the Soviet Pacific Fleet at Vladivostok. While reading copy about the speech from our correspondent at Misawa, I asked someone on our staff to call the base's public affairs office to find out how far away it was from Vladivostok. The reply: the base couldn't give out that sort of information.

But the censorship was usually much more serious, and one of the worst browbeaters was General John Wickham, then the U.S. commander in Korea who would go on to become Army chief of staff. After I once deleted some press-release information that was unnecessarily flattering to Wickham, he got the Pacific Command to investigate the newspaper for dereliction of duty. The specific charge involved some minor error of fact in a story about what members of military families could use PXs, but there was no doubt in my mind -- after hearing from Wickham's public-affairs officer -- that the general was upset about the fulsome praise in his own press release that didn't make our news columns.

Ultimately an investigating team from the Pacific Command found that the charge was baseless, and during the investigation I didn't have to worry about my own job. As a civilian employee, I was well protected against such caprice. But for the military people at the newspaper -- from the editor in chief to the sergeant who wrote the story -- the investigation posed a career-ending threat. To punctuate his intimidating point, Wickham one weekend called the editor in chief off the golf course to give him a special chewing out.

And all the while -- then as now -- I wondered what Wickham's petulance had to do with the directive from the Defense Department that Stars and Stripes should not be subjected to censorship and news management.

When I started complaining more officially about this sort of abuse, I found myself mired in increasingly muddy regulations. For example, Wickham's successor in Korea, a General Robert Sennewald, ordered a press release to appear not only word for word in Pacific Stars and Stripes but on a particular page. The release was about a gonorrhea vaccine, and some of the information didn't make sense. But the Pacific Command upheld Sennewald's decision to dictate the release to Stripes and to place it on a page that went only to Korea, even though a gonorrhea vaccine was of interest Pacific-wide.

When I complained to the inspector general for the Pacific Command about Sennewald's action, I got new regulations that gave the newspaper's so-called Advisory Council -- the public-affairs officers from the various subcommands throughout the Pacific -- veto power over editorial projects that I was trying to publish.

One project that got vetoed was about family violence in the military, a subject that got treated widely, if somewhat antiseptically, in Defense Department publication. But because the public-affairs officers -- whose main job is damage control -- didn't want their superiors to see anything about wife-beating and child abuse in the American military throughout the Pacific, the series was spiked. For the record, I've submitted some of the public-affairs officers' comments about why the series shouldn't run. One of the reasons was that family violence didn't affect enough people.

During May of 1983, I decided to stop seeking administrative remedy to my problems and to try to get congressional help. The reason was a call from Seoul from a Major General John Hudachek, who said that, for security reasons, we couldn't publish the name of an American military base in South Korea. The occasion for the call was a story that we were about to run about the hijacking of a domestic Chinese airliner that landed at the American base -- Camp Page.

The story was a good one for us for a number of reasons: no one had successfully hijacked a Chinese airliner before, and an American military base was involved. The media coverage was extensive. We combined some material from the Associated Press and United Press International to produce a respectable story. But Hudachek, for reasons that were never quite clear, said that Camp Page was classified. I argued that he couldn't classify a whole base in the middle of Korea and that, besides, even if he could, the cat was out of the bag. Both AP and UPI had not only stories but pictures of the airliner at Camp Page and had identified the base by name. But Hudachek took his case to the Pacific Command, and within five minutes

I had orders to run a wooden, five-paragraph release from the American Army in Korea about "armed individuals" hijacking the plane, which had landed "at a U.S. military installation near Chuchon in the Republic of Korea."

Openly, I prepared a complaint to send to Representative Glenn English, chairman of the House Government Information Subcommittee, which which I had worked. The complaint listed most of the incidents that I've been talking about today and included documentation, all of which I am submitting to you for the record. On a Friday, I threatened to send off the complaint unless -- at last -- Pacific Stars and Stripes got relief from the heavy-handed abuse it was taking.

And relief came quickly. Over the weekend a friend in the American Forces Information Service -- a very gutsy Air Force colonel named Stan Jensen -- took the complaint directly to Henry Catto, who was assistant secretary of defense for public affairs. Catto called the Joint Chiefs of Staff's office and said to get the word back to the Pacific that he didn't want any more censorship. The Pacific Command spread the word to its subcommands, and the next Friday, we got word that we could run the series on family violence. In fact, our Advisory Council of public-affairs officers was instructed that it could no longer veto any of our editorial projects. What I'd been unable to accomplish during two years of persuasion I was able to get done during one week of threats of disclosure to Congress.

I never sent the letter to Mr. English. In the Pacific, my deal with the devil was that as long as the commanders kept their hands off the newspaper, I'd pull my punch. During the rest of my six months in Tokyo, the newspaper also ran some series on problems with military housing and discrimination against women in uniform. I was sorry not to have done more but happy to see Pacific Stars and Stripes starting to look like a real newspaper again.

And so the current reports that the bad old days have returned to Pacific Stars and Stripes.are all the more sad. Because I believe the reports, I very much support the GAO's conclusion that civilians should run Stars and Stripes. As I have tried to illustrate, military people are too vulnerable in such.positions and -- in attempts to curry favor with superiors -- can shoot themselves in the foot. Self-censorship at the newspaper was also a problem.

As for the confusion that the GAO identified over a dual mission to provide both general news and internal military information, I contend that in providing the general news, Stars and Stripes meets any responsibility that it might have as a house organ. The Stars and Stripes are the only publications that can act as hometown newspapers for the U.S. military abroad. USA Today carries enough news from back home, but it is too expensive overseas for most American military people. The International Herald Tribune is also too expensive and doesn't carry enough domestic U.S. news to satisfy the troops.

For Stars and Stripes to have to also run military information is not only an invitation to the abuses already cited but an expensive duplication of effort. This sort of information is available for free on bulletin boards and in all sorts of military publications that come out of the Defense Department's budget. To make military people pay a quarter to get the same information in Stars and Stripes is unfair and even counterproductive. Their resentment can lead to canceled subscriptions, and when circulation drops, Congress must appropriate money to subsidize Stripes. In the end, the taxpayer gets billed twice for the same information program.

I urge you to mandate civilian control of Stars and Stripes' operations and to have the newspapers report to the American Forces Information Service's office in Washington rather than to the local theater commands. I'm afraid that the theater commanders have neither the time nor the interest to protect the newspapers from censorship.

If AFIS cannot protect the newspapers, I suggest trying to interest a commercial newspaper in running Stars and Stripes under contract.

I do not suggest abolishing the Stars and Stripes. They have become proud little institutions that can embody many of our rights in an open society. For shame that so many of our high-ranking military people have shown such contempt for these liberties and instead have presumed to know what news the American military people should get.

Friends and adversaries around the world can only marvel that, as a country, we have the confidence to try and publish uncensored newspapers for our troops abroad. I hope that all of us can have as much faith in our ourselves and that I can answer any of your questions.

Mr. Hutto. Mr. Sherbo.

STATEMENT OF PAUL SHERBO, FORMER ASSISTANT MANAGING EDITOR FOR NEWS AT PACIFIC *STARS AND STRIPES*

Mr. Sherbo. Thank you, Mr. Chairman, and members of the Committee.

For the record, my name is Paul Sherbo, and I was the Assistant Managing Editor for News at Pacific *Stars and Stripes* from 1984 until my resignation almost 2 years ago. The report by the Government Accounting Office and the Society of Professional Journalists have already documented those instances of censorship and the existence of censorship at Pacific *Stars and Stripes*, so I don't want to dwell on that issue here.

Instead, I'd like to suggest for your consideration three possible ways to correct that situation. First, I'd like to suggest replacing all military personnel at *Stripes* with professional civilian journalists. Of course, there would still be a problem in that whoever would appoint these civilians would still be in a position to ensure the selection of those people who would perpetuate the present censorship policies.

A second alternative would be to remove all civilian personnel from the newspaper side of *Stripes*, staff it entirely with military personnel, and drop all pretense that it is uncensored. This would at least put an end to this pretense of being uncensored. I believe it would be a disservice to our troops and would give the wrong example to other nations in what we believe a free press is and should be.

This brings me to the third possibility, shut down the newspaper operation, except for distribution. Then open bidding for a contract whereby English language newspapers bid on how much they would pay *Stripes* to distribute them.

In suggesting this alternative, I'd like to point out that overseas base newspapers would continue to provide our troops with local news on items of interest and such subjects as local intramural sports. The news from stateside would then be provided by newspapers from outside *Stripes* control and therefore outside *Stripes* ability to censor news.

Whether you choose one of these alternatives or another method, it is hard to see how *Stripes* approach to news censorship can be allowed to continue. How can it be justified? Is it to protect the morale of our troops? Then how can a soldier be old enough and tough enough to carry a gun and be willing to fight, but not old enough and tough enough to take his news uncensored.

Some have argued that because *Stripes* is associated with the United States Government, censorship disguised as news judgment must be exercised. But I believe that this very association with our Government is all the more reason to ensure that we showcase an example of what a free press is.

This very association makes it even more vital to air unfavorable news as well as favorable, to prove that we do not fear and are not ashamed of the consequences of one of the rights established in our own Constitution.

I'd like to thank you for taking the time to address this situation, and I'll try to answer any questions you may have.

Mr. HUTTO. OK. Thank you, Mr. Sherbo.

Mr. Brackett.

STATEMENT OF DEWEY W. BRACKETT, EDITOR, PACIFIC *STARS AND STRIPES*

Mr. BRACKETT. My name is Dewey Brackett, and I'm the Pacific editor for the Pacific *Stars and Stripes*.

I'm a retired Air Force Officer, and I spent 10 years in the Air Force Public Affairs career field, and 10 years as an intelligence officer specializing in political and military affairs in Asia.

Prior to joining *Stars and Stripes* in 1984, I was a London bureau chief for Knight Ridder Financial News Service.

I'd first like to thank the committee for this opportunity to express my views about the current situation of Pacific *Stars and Stripes*. I have carefully studied the December 1988 GAO report on *Stars and Stripes*, and I wholeheartedly endorse its conclusions and recommendations. This report is especially well researched and written, but I feel it has three areas that need some clarification.

First, the problem of censorship and news management at Pacific *Stars and Stripes* is not a simple conflict between a few civilian journalists and their military superiors. From the beginning, military journalists at the paper have been actively involved. Some of these people have been badly abused for writing honest stories, while others have had their military careers ruined. It is misleading to minimize in any way their courageous role.

Most of these fine young men and women understand the principles of basic American journalism better than the officers appointed over them.

Second, there is an impression in the GAO report that the examples of censorship and news management listed in the report are the only incidences that occurred. That is not true. There were hundreds of others that were never documented by any one.

What you have here in this report is the result of a very casual, random collection of documents by the military and civilian staff. There was no organized effort to document each instance because there is no organized opposition at Pacific *Stars and Stripes*, not even a loosely knit one.

Also, there is no conspiracy by the civilians against the military or any individual entity. But be well aware of this, gentlemen, all of the personnel from the managing editor who is a civilian on down know that the paper has been censored and the news in it has been managed. There is a strong consensus on this point.

Third, the GAO report does not adequately document the abuse and mistreatment of military and civilian journalists who resisted censorship or tried to report honestly. In the past 3 years, we have lost some of our very best talent because the newspaper is no longer a place where good, honest journalists can practice their craft without compromising the principles basic to that craft.

There have been some very dirty things done to innocent people at Pacific *Stars and Stripes*. The quality of the newspaper has suffered as a result, but the people who have suffered the most are the military and civilian readers who depend on us to bring them the news honestly.

Except for these clarifications, I believe this report represents the single best documented case of U.S. military censorship in our modern history. This is a tragic document, gentlemen, because we did this to our own armed forces.

On a more general level, this report is two important things at once. It is a most damning indictment of the dishonest past of Pacific *Stars and Stripes*, and it is a blueprint of what DOD intends to continue doing at both newspapers unless action is taken to stop them.

This report has been public for 2 months now, and there has been no change in editorial policy. Indeed, DOD tells us that they want to study the report for a year. What is there to study?

Any high school freshman journalism student can tell you these practices are wrong. There has been much criticism about the outstanding work done by the panel from the Society of Professional Journalists. But how the panel is split on a particular issue of censorship or news management only underscores the intense effort they made to be fair and objective. The irrefutable bottom line is that they found news management and censorship at Pacific *Stars and Stripes*, and they found it unanimously.

Their moral courage should be commended.

In my judgment, Pacific *Stars and Stripes* today is a willful failure. The paper's independence and integrity has been purposely cast aside, and the DOD charter which is supposed to protect it is now as meaningless as the Russian constitution. There is great dereliction of duty in all of this.

The people charged with protecting the paper from censorship and command influence have abandoned their responsibilities with gusto. They actively encourage, support, and defend the very practices they should be protecting us against. Worst of all, there is no reason to censor *Stars and Stripes* or to manage its news.

All of this is absolutely unnecessary. If this sordid business served some worthwhile purpose, however remote, at least it might be understandable, but it does not. Despite all the nervous talk about host country sensitivities and the nonsense that the paper might somehow be misinterpreted as printing the views of the U.S. Government, no one can point to a story printed in *Stripes* that has harmed U.S. interests or personnel anywhere in Asia.

Modern Asians don't read *Stars and Stripes* to learn the views of the U.S. Government. They know who AP and UPI are.

The reason the paper is censored is as sad as it is simple. It disturbs the generals and admirals, and as a result of that, it disturbs their public affairs officers. What disturbs them are negative stories about the U.S. Government, the Defense Department, the military installations of personnel under their command, or the governments of the Asian countries in which they are located.

So we publish this newspaper with a very select group in mind. I don't think anyone cares what the average reader wants to see in the newspaper. Indeed, we don't even know who the average reader is because we haven't taken a readership survey in more than 8 years.

But our readers do care about the newspaper and its content. For a lot of them, it's the only newspaper they have. I have just returned from an 8-day tour of our military bases in South Korea. Our news editor accompanied me. We spoke to officers, NCOs, and civilians. Almost every one of them raised the subject of censorship with us, and they all thought it was wrong.

From these conversations, it is clear to me that the paper's credibility is almost gone. I suspect that what we found in Korea is also true in our other circulation areas. It's only my opinion because no one really knows, but I believe the paper is now read more for its sports and comics than anything else.

We urgently need reform at *Stars and Stripes* to restore the paper's credibility and independence, and it should begin immediately. The first and most important step is to place a civilian journalist with solid newspaper credentials in charge of all editorial functions. This person should be an outsider with no *Stripes* experience, and should be a contract employee who is not part of the Civil Service system.

I recommend that Congress ask the Society of Professional Journalists to form a screening panel to review applicants and nominate the top three candidates to DOD for final selection. This outside screening process is imperative, or you'll surely end up with a retired PAO colonel as editor.

Equally important is the removal of editorial control of the newspaper from the Unified Commands and the American Forces Information Service. Both of these agencies have demonstrated a remarkable inability to protect the paper from censorship and command influence. The GAO report solidly documents this failure. They have clearly forfeited any claim they might have to continued authority and responsibility.

Further, I firmly believe that if the newspaper remains under their control, they will only work to institutionalize the practices documented in the GAO report. Our Armed Forces do not deserve that.

The PAO Advisory Board should be abolished immediately. These boards are the primary instruments for exerting command control and influence over the paper's editorial policy. They are the direct equivalent of having your local chamber of commerce dictate editorial policy to your home town newspaper.

There is no real American newspaper that would tolerate such an absurd arrangement. Why should we?

Right now, *Stars and Stripes* is badly overstaffed with military officers. We have too many chiefs. In the Pacific, we have an Air Force colonel, an Army lieutenant colonel, and a Navy lieutenant commander. This is a wasteful use of military manpower. I am an officer, and I spent 24 years in the service, and I can assure you that is a fact.

Because of this overstaffing, our managing editor doesn't have much of a job. If he could be here today, he would gladly tell you this, and he'd tell you a lot more than this. The managing editor's primary duties are performed by the colonel and the lieutenant commander. So he has become a proofreader, and he is probably the most expensive proofreader in American journalism today.

Also, *Stripes* does not need a colonel at the helm in order to maintain its image as the GI's newspaper. It is a GI's newspaper because it is read by GIs. A colonel is not a GI, as any GI will quickly tell you.

Likewise, we do not need a colonel assigned to the paper because of any war-time readiness requirements. This is just a fiction aimed at justifying a senior officer position. If we have a war and we suddenly find that we need a colonel, I can assure you the paper will function properly for the week or so it takes to fly one out to Japan or Germany.

Finally, the paper does need a special ombudsman, and it needs one badly. Again, an honest outsider who can hear complaints both about the newspaper and the personnel practices involving journalists that take place there. Personnel management at both *Stripes* newspapers is an unholy mess. It needs urgent reform.

Stars and Stripes is an important vital source of current news and information for our military personnel overseas. Of all the segments of our society, our Armed Forces should be the very last to have their news censored and managed. I refuse to believe the American people would want to deny our Armed Forces one of the most important freedoms that they're out there defending.

Thank you for your time and attention.

Mr. HUTTO. Thank you, Mr. Brackett.

I perhaps should have withheld my question about whether the employees are happy or not.

[Laughter.]

Mr. HUTTO. I appreciate your speaking your mind. That's what we wanted you to do. I'm grateful to you.

I'd like to ask you a few questions. What is your GS ranking?

Mr. BRACKETT. I'm a GS–12, sir.

Mr. HUTTO. GS–12. Whom do you answer to?

Mr. BRACKETT. I answer directly to the managing editor, sir.

Mr. HUTTO. To the managing editor.

Mr. BRACKETT. He is a GS–13.

Mr. HUTTO. He answers to?

Mr. BRACKETT. He answers directly to the deputy editor-in-chief.

Mr. HUTTO. Deputy editor-in-chief.

Mr. BRACKETT. Yes, sir. Deputy editor-in-chief who is a lieutenant commander and then his boss who is the editor-in-chief.

Mr. HUTTO. OK. You were in the private sector with Knight Ridder before you went to *Stars and Stripes*?

Mr. BRACKETT. Yes, sir, I was.

Mr. HUTTO. Why did you make that step? Was it a promotion, or what?

Mr. BRACKETT. You mean, from Knight Ridder to *Stars and Stripes*?

Mr. HUTTO. Yes.

Mr. BRACKETT. I was in London and my wife and I have spent most of our lives in Asia, and I had worked in Asian journalism. It's our home, and this opportunity became available. I'm a retired officer, I know Asia very well, I know journalism very well, and it seemed like a perfect match up.

Mr. HUTTO. How long have you been in that job?

Mr. BRACKETT. Five years now, sir.

Mr. HUTCHENS. Mr. Chairman, I might add that it was I who hired Dewey Brackett at the *Stripes*. I did so because of his very distinguished record in the civilian sector, and also his military history. Dewey didn't mention this, but I think he spent most of his Army career as an enlisted man, and then became an officer later in his career and had quite a career in counterintelligence during Vietnam. There's a lot about him that made him just the right person, I think, a good balance between military and civilian points of view for the job as Pacific editor.

Mr. HUTTO. You've indicated that it should be civilian managed, in other words, take the military out of it. So you obviously see that constant conflict between the uniformed military and the civilian staff?

Mr. BRACKETT. Yes, sir. I didn't want to go on at length about some of the things that I find difficult here, but I don't think there's any conflict between the editor-in-chief as an officer and the editor-in-chief as an editor. I think there's no conflict at all. The officer will always dominate.

Either that, or as Colonel Stevenson proved, you will get fired. It's just that simple. You're either going to do what the command says out there, and whether they tell you to do it or not is immaterial. That makes no difference. I mean, if you——

Mr. HUTTO. Are you telling me then that the censorship comes from higher up than the editors-in-chief?

Mr. BRACKETT. Yes, sir, I think it does.

Mr. HUTTO. OK. So the editor-in-chief, the people assembled there to work on the *Stars and Stripes*, that's not where the problem is as you see it. It's higher than that? Is that correct?

Mr. BRACKETT. Yes, sir, very much higher than that. I would like to say for the record that I think Colonel Montgomery is one of the most blameless men in this entire situation that's going on here.

Mr. HUTTO. I know he has a distinguished military record, and he is a fine officer.

Mr. BRACKETT. I think he has done exactly what they want. What we're dealing with here is a set of attitudes, a set of command attitudes. It's just as I said in my statement. They don't want certain types of stories to appear in certain places in the newspaper.

That is communicated to the editor. He has to understand that framework and work within those parameters. If he doesn't, then the PAOs and the commanders are going to take steps to get rid of him, as they have done.

Mr. HUTTO. But if we civilianized it, it would have to be all the way. I mean, it would have to be contracted, and it couldn't be governmental, could it? You'd still have that same pressure, wouldn't you?

Mr. BRACKETT. No, sir. I think there is a way, as I pointed out in my statement. The way to handle it is simply this. You make it a contract position so he's not part of the civil service. He will serve, or she, whoever the editor is who's appointed, will serve for 3 to 4 years in a nonrenewable contract, so the man comes in knowing that he's going. That way, he is not under the pressures.

The other thing is that he should report directly to the Assistant Secretary——

Mr. Hutto. He knows he is going at the end of his tour?

Mr. Brackett. He is going at the end of his tour. He will be a civilian editor who is not part of the system, in other words.

Mr. Hutto. But he could be fired during that time.

Mr. Brackett. Well, for malfeasance, of course, anyone could have their contract terminated, or if you catch him with his hand in the cookie jar, something remotely, some sort of problem like that. But I think what he should do is report directly to the Assistant Secretary of Defense for Public Affairs. That should be his boss. Complaints about him should be handled through that chain. He should not be answerable to people at the unified command level.

It's the unified command here that is causing the problem. That's what it is. It should be taken out from under that command. As long as it's under that command, you gentlemen are going to have a censored newspaper with the news in it managed.

Mr. Hutto. Mr. Hutchens, you were talking about classified material. Wouldn't you agree, though, that in the Washington area, it's common for these slips——

Mr. Hutchens. Leaks.

Mr. Hutto. Leaks are common occurrences, and we often-times have classified hearings and then we see what we'd talked about the next morning in the newspaper, sometimes even beforehand.

But being a governmental publication, as the *Stars and Stripes* is, it would seem to me that you have to have the discipline to obey if something is classified. I don't see how a Government publication could violate that.

Mr. Hutchens. I don't think it's necessary, Mr. Chairman, if the Pentagon in this instance treated *Stars and Stripes* just the way it would treat any other newspaper, no more and no less, in terms of its access to classified information.

This I believe is also spelled out in the regulations that *Stars and Stripes* reporters, for example, are to be treated just like any other media. But they're not. I mean, I can remember an admiral in the Philippines ordering one of our reporters into uniform one time, even though it was our direction that *Stars and Stripes* employees would wear civilian clothes.

I don't know if that answers your questions.

Mr. Hutto. Well, I can understand when some other newspaper has reported on something and you're precluded from it, I can understand the frustration of that.

I'm just trying to get to the point that you do have to have a discipline if you're governmental and something is classified, it seems to me you would have to abide by that.

Mr. Hutchens. Well, Mr. Chairman, I would say if it were a UPI or AP story that contained leaked classified information that was getting disseminated every place else, that there shouldn't be any problem in running it in *Stars and Stripes* identified as an AP or UPI story.

Mr. Cofer. The one point I think the Chairman's trying to make is, and we've had it here on the committee, there are certain things I think newspapers report that maybe, say, CIA, for example, that the administration and the CIA do not declassify that information.

I think it's incumbent on employees of the Federal Government and members of Congress that we may talk about something, but until that data is formally declassified by the Department of Defense or the CIA, then you can't talk about it. I don't see how that influences—what you're trying to say is, just because some information may be disclosed which is secret, or confidential in nature, just because a private sector newspaper has disclosed it, then the Government entity should also have the right to disclose it.

Mr. HUTCHENS. Yes.

Mr. COFER. I don't think that's a valid comparison. You still have the law of the United States Congress and the land of disclosing secret or classified information until it is declassified by the Department of Defense.

Mr. HUTCHENS. Excuse me. Are you saying then that there should have been a news blackout in the *Stars and Stripes* about the Pentagon papers.

Mr. COFER. I would believe you have to interpret the law as of the time that that disclosure was made. I think Mr. Brackett being a former intelligence officer would probably have the same opinion, if you read the law. I'm not saying whether you agree with the law or not. The law is that no one can disclose confidential or secret information until it has been declassified by the appropriate authorities, is that not correct, though?

Mr. BRACKETT. This isn't clear in the charter that we operate under.

Mr. COFER. I mean, I'm talking about the law, not your charter.

Mr. BRACKETT. Yes. The law, you're absolutely correct in that. But the problem persists in our charter there. What do you do, for example, if AP and UPI have it and they've already sent it around the world, not only to U.S. newspapers but to everyone else, classified information, and a story containing classified information, and we get it. The Pentagon papers is a very good example.

Now, I think what the Charter refers to is that in our local reporting, if we come across classified information, we will not report that. I don't think it means to exclude things that are routinely reported by the wire services, though. I think that's the difference.

Mr. COFER. Well, we have assumed, even though the wire services disclosed it, it is still technically classified information legally?

Mr. BRACKETT. Yes.

Mr. HUTTO. OK. Mr. Hutchens, I take it, though, that this was an exception. This is not something that happened often, is it?

Mr. HUTCHENS. This is the only time I can remember, Mr. Chairman. I can remember sometimes simply because I or members of the staff were there, that we would gain access to classified information, probably information that we shouldn't have had in the first place. Didn't we publish because of that special access. I suspect that the same practice applies today.

But, again, and the case I cited, I never followed up on this but I don't think it had any, I don't think it should have been classified in the first place. Maybe it wasn't even classified, maybe it was just this general blowing smoke.

Mr. HUTTO. Mr. Ray.

Mr. RAY. Mr. Brackett, you had mentioned that you had done some extensive traveling and picked up a great number of serious allegations and concerns from different reporters and folks connected with the paper.

Mr. BRACKETT. Just comments from readers. I might add that we didn't raise the subject; they raised it with us.

Mr. RAY. I see. Did you document those instances and name names to put in the record?

Mr. BRACKETT. I think the assistant managing editor for news who was with me made notes on this, and it is my understanding that he was going to make a report on it.

Mr. RAY. So this information is not censored. You have that specifically available so we can review it if we wanted to, see who made the statements, what they——

Mr. BRACKETT. Yes, sir, I could ask him for his notes.

Mr. RAY. I don't know if we'll need to, but I just wanted to be sure that we had that in the record, if necessary.

So you're all saying that stories are being killed before they're assigned? The stories that might ordinarily run in the paper that are current news are being killed before assigned?

Mr. BRACKETT. Yes, sir. The examples are all here in the GAO report.

Mr. RAY. Any disagreement with that?

Mr. HUTCHENS. No.

Mr. RAY. Since the GAO report on censorship was issued, has the situation changed at all?

Mr. BRACKETT. No, sir. The same editorial policies are in effect. No, sir.

Mr. RAY. Now, Mr. Brackett, you have worked as a public affairs officer and a reporter. There's some difference there but not that would be conflicting. Do you want to make any comment about describing the difference in working as a public affairs officer and a reporter?

Mr. BRACKETT. Well, there's a fundamental difference. A public affairs officer is a representative of the command, he's the public spokesman for the command and the commander of the military unit that he's assigned to. His job is to accent the positive and downplay the negative, or eliminate it if possible.

A reporter is basically a person who goes out to collect and report the news as accurately, timely, and comprehensively as he possibly can for his readership.

Mr. RAY. I see.

The *Stars and Stripes* is a Government-owned paper, has military people running the paper, so to speak, and I assume that many years ago, the *Stars and Stripes* was a communication-type bulletin that came out in its early beginning. Through the years, it has improved and become a pretty effective paper now. I just raise this question and it doesn't mean that I would want to change it in any kind of a way.

But because it's controlled by the United States Government, the information that comes out of that paper, that our allies read, for instance, would it have any more of an impact on them than out of the *USA Today* or some of the other public papers?

Mr. BRACKETT. No, sir. That's something, that is an old myth that needs a wooden stake driven right through its heart. It is absolute and total nonsense that Asians are reading Pacific *Stars and*

Stripes and thinking that this contains the views of the U.S. Government because it's published by the Department of Defense. It just is not true.

Modern Asians today know the wire services, they know AP, they know UPI. They do not form any sort of conclusions based on what they're reading in there.

I had an interview, for example, with the Vice President of the Philippines, Salvador Laurel. I was there with our Philippine Bureau Chief. I asked him not for the purposes of the record, but we were just chatting, and I said, do you read the paper, and he said, yes, I do. I read it two or three times a week. I find it very interesting. It's a refreshing change from the Filipino press which is relatively wild.

I said, well, let me ask you, do you think that this paper represents the views of the U.S. Government in any way and do you read it for that purpose. He laughed. He said, no. He said, my goodness, if I want the views of the U.S. Government, I know how to find my way to the American Embassy.

I think this is a thing that has been used to bolster censorship and news management of stories, this and the host countries' sensitivities thing. It's time it was stopped because it's total nonsense. It's a load of b.s.

Mr. RAY. So if the Secretary of State and high-level Pentagon people are involved in a very delicate mission and rumors get out in the regular press, and then the *Stars and Stripes* put out their opinions on the rumors, too, that it doesn't have any more impact than the maybe *USA Today* would have as far as——

Mr. BRACKETT. If we get the story from the wire service, from the Associated Press or United Press International, there is no reason why we shouldn't publish that in Pacific *Stars and Stripes* and make it available to our people. Because, understand, that everywhere else in Asia, that story is being published at the same time.

We had a ridiculous thing that happened with the Battleship *New Jersey* out there that was coming in to visit. We were told literally that we could not publish that the Battleship *New Jersey* was coming to Japan, while in the middle of Japan, radio, television, all the English language and Japanese language news media were saying, it's coming in. They were giving the date it was going to arrive down at——

I had to give a reporter a letter of counseling, of disciplinary counseling because he inadvertently put this in the bottom of a story as part of a sentence over on page 13 or 14, buried in the back of a news story. He didn't know he wasn't supposed to do it. That's been cited as an example of publishing classified information. There's nothing classified about that when the whole of Asia knows it. It's ridiculous.

Mr. SHERBO. Sir.

Mr. HUTTO. Yes, you may answer, too.

Mr. SHERBO. I'm sorry, sir. If I may make a comment on how *Stripes* might or might not affect the sensitivities of activities of the State Department and the Department of Defense.

In December of 1985, a number of us made a trip to the Philippines to make calls on various public affairs officers. We contacted the embassy ahead of time to let them know we were coming, and we were asked specifically to reschedule our visit to meet with the ambassador there.

Now, this was just before the February elections, which events led to Ms. Aquino coming into power, so it was an extremely sensitive time for the State Department. We assumed that the ambassador had something extremely important he wanted to tell us about coverage.

We went to the embassy; we met with the ambassador. The colonel at that time made his presentation of what our mission was and that sort of thing. We moved to the edge of our seats to hear what the ambassador had to say for us, and his comment was, can't you get later box scores in the paper.

I think the State Department has bigger fish to fry than Pacific *Stars and Stripes*. They have ABC, NBC and the world press to handle.

Mr. HUTCHENS. Mr. Ray, if I could follow up on that point. When Aquino was assassinated, we had routinely been instructed to call the embassy to give them synopses of stories and ask whether they were sensitive. The press secretary to then Ambassador Michael Armacost finally said, will you guys stop calling me and just run whatever you think ought to be run.

In other words, here is another case, I think, and it was embarrassing, it was mortifying for us to have to be checking out to the State Department that wasn't interested in what we ran in the first place. This was also at a time when I think the State Department's opinion of Mr. Marcos was changing, too. But nevertheless, it was another case of our censoring ourselves.

Mr. RAY. Well, do you think it's time, then, that we started changing the course. We've been there in Europe and Asia for 44, 45 years now, and maybe the paper has served its purpose, and we don't need to have it controlled by the military any longer. Maybe it ought to be a private sector paper or maybe subsidized by the military to be sure it gets to the right people, the service people at a reasonable cost.

But it would seem to me that there could be, in the Asian mind, which I have a little bit of experience with, there could be some misinterpretation if a message came out in the *Stars and Stripes* about a very sensitive issue. It would simply compound rumors that are already circulated in the press. There are plenty of rumors that get out there that aren't correct.

Mr. BRACKETT. By the time they see it in the *Stars and Stripes*, they will already have seen it and heard it in all of their other forms of media. You have to consider the number of people that you're talking about here, sir.

Take Korea, for example. The number of people that can speak English in Korea is a very distinct minority. The number of people who can speak English and then manage to get their hands on a copy of *Stars and Stripes*, is a true minority. I mean, you're talking a veritable handful right there. It just simply doesn't have that kind of impact and the Korean Government just simply doesn't care. I can't believe that they would care what that small group of people would think.

Mr. RAY. Well, we're dealing in a competitive area now where people are becoming more and more educated. In China, for instance, more people speak English than in the United States. I just think we've got some changing times here. I'm not saying that we ought to ever censor information. Certainly, that paper ought to be able to reprint something at the very least that's been published in the *Wall Street Journal* or *USA Today* and give it credit, if necessary, to keep it current.

But I just raised that question, and you answered it pretty well. I appreciate it, thank you.

Mr. HUTTO. I noticed that you have a rather balanced presentation as far as the viewpoint is concerned. You have liberal columnists, you have conservative columnists. So from that standpoint, it looks like you present both sides of the issues. Do you have any problem with that, with the unified commanders saying don't carry Carl Rowan or Bill Buckley or whomever?

Mr. BRACKETT. I'm not aware of any problems along that line. I talked to one young officer in Korea who was very pleased with the newspaper. He said that he is to the right of Ronald Reagan, and he says, I think you guys are doing a great job. He says, I can see a definite right wing bias in the paper and he says, that's fine for me, but I'm not sure what people who are less conservative might think of the paper.

But on the columns, I'm not aware of any problems that we have there, sir.

Mr. HUTTO. But you do have liberal and conservative columnists?

Mr. BRACKETT. Yes, sir. I think we make a very very determined effort to keep it as balanced as possible.

Mr. HUTTO. Do you know how much is paid to these columnists for running their columns?

Mr. BRACKETT. No, sir. I have no idea.

Mr. HUTTO. I wonder if they give a discount to the military? [Laughter.]

Mr. BRACKETT. No.

Mr. HUTCHENS. No.

Mr. HUTTO. Should be at commissary rates, I think.

Do you have a question, Mr. Waters?

Mr. WATERS. Just one question, Mr. Chairman.

The GAO report seems to include—and I'm wondering what the result would be if we did the same type of analysis with say the *Washington Post* and the *San Diego Union* or the *Manchester Union*.

You fellows have been reporters; you've been around for a long time. Reporters have their stories either severely edited or they're killed by their editors.

Are we talking along the same lines here?

Mr. HUTCHENS. I think you might find something like this in small towns, small communities. I don't think you'd find it at the *Washington Post*. In a small town, if the manager of Kresges, the paper's biggest advertiser, gets picked up for drunk driving, maybe the publisher's got a problem. Maybe the guy's going to pull his advertising if there's a story run on that. But that doesn't happen at the *New York Times* and the *Washington Post* and the *L.A. Times*.

I'm not saying there's no news management even at the big papers, but it's by no means so drastic.

Mr. WATERS. Mr. Sherbo?

Mr. SHERBO. Yes, sir. To comment on that, I've worked at three other newspapers about the same size as Pacific *Stars and Stripes*, three commercial newspapers. I'd have to say that once in a while, perhaps a couple times a year, you might go head to head with the publisher or your editor about a story. You win some and you lose some. Overall, I think it evens out to the good.

The problem with *Stripes* is that you have a very calculated deliberate thing where it happens almost every day. I think that's a very big difference.

Mr. COFER. Mr. Chairman, I just have one or two questions.

In terms of corrective action, do you all agree that we need an independent ombudsman? Is that something you would all agree to?

I mean, we're looking forward to saying we don't want to see you fellows here again next year. Would you all agree that we need an independent ombudsman?

Mr. BRACKETT. I would say, yes, but with a qualifier that you need a civilian editor, an experienced civilian editor, more than an ombudsman.

Mr. COFER. I was going to come on down the line just to see where we would be.

So you say an independent civilian editor is more important than an ombudsman?

Mr. BRACKETT. Yes, sir.

Mr. COFER. There's just one point. We seem to say that because we have military involved in the editorial, they sing the party line. I think you were indicating that the current editor-in-chief is a GS-13, which is not a very high position.

How could a GS-13 ignore the wrath of an admiral or general as opposed to a major or a colonel? If you're out there in CINCPAC and Admiral Hardisty doesn't like you because you're putting stories in the newspaper and he is the CINCPAC, I don't think it makes a damn bit of difference whether you're a colonel or a GS-13.

Mr. HUTCHENS. I was a GS-13 and I did it all the time. I felt as though, under the civilian regulations, I could operate with impunity. I mean, I know what it takes to fire a civilian employee because I tried to do the same thing while I was out there. These guys couldn't hurt me.

Mr. COFER. We've put whistle blower protection into a lot of legislation. I see it from where we are on the Staff that GS-13s get eaten up all the time, GS-12s. Fitzgerald who was a higher rank was eaten up.

But I'm just trying to get to the point of why do you think the civil servant—you don't necessarily have to fire a guy, you can transfer him out and do a lot of other kinds of things. You can move him off into an assistant slot that doesn't do anything.

I'm just trying to solve the problem of what do we have to do to make sure that this does not happen again. Can you give us some alternatives?

Let him go first.

Mr. SHERBO. I'm sorry. The last alternative I suggested would just simply end—and this of course would depend on whether it's economically feasible—contract it out. I think one of the reasons it's so expensive for *USA Today* or the *Wall Street Journal* to distribute overseas is because they don't have *Stripes* distribution. They don't have, they aren't distributed and circulated on the bases. They're sold in the bookstores, perhaps, and the exchanges, I don't know. But that's what they need.

I think if you contract it out, then you remove *Stripes* ability to censor altogether.

Mr. BRACKETT. I think Congressional oversight is very important. You'd better tie that to your special ombudsman that you're going to put in if you're going to bring him in. He needs to be able to report directly to Congress so that he can come in and do something about the situation immediately.

But first and foremost, you've got to have a civilian editor, and this is the point that I made in my testimony, who is not part of the civil service system. He is a contract employee with a non-renewable contract. It'll only go for 4 years. So he comes into the job knowing he's got a definite end to the thing. He has nothing to lose and nothing to win, except to do the best job he can for military readers.

If he has that oversight, then——

Mr. COFER. I'd ask just one final question, Mr. Chairman.

What puzzles me is why is it only the Pacific? Europe had something, but it was minor. I don't think everybody was up in arms. Why has it historically happened in the Pacific, but it has not historically happened in Europe?

What makes the difference?

Mr. BRACKETT. I have talked with people in European *Stripes* and they tell me that there are serious problems there, very very serious. I don't know whether the GAO was able to get to the bottom of this. I suspect we had a different team, GAO team, that came out to Asia to look at our situation.

I don't know. It may be something to do with the fact that the Navy runs the Pacific from the Pacific Command, and the Army runs the European Command, that, as simple as that sounds.

But let me tell you the problem here with this newspaper, as simple as this may sound. This newspaper has got to decide whether it is a command support newspaper, that it belongs to the command, or whether it belongs to the U.S. military readers who are stationed in Asia. All we're saying out there is if it does not belong to the U.S. military readers out there, it is time to give it to them. They deserve an independent newspaper, and they don't have one. That's the key to it.

I can't really tell you why there were so many allegations in the Pacific. Believe me, there is no organization out there. I'm often accused of leading the opposition. I may be the unhappiest man out there. I'm sure in a lot of respects, I am, because I spent so much time in the military. But there is no organized opposition in the Pacific, there is no group, there is no little handful of civilians doing this. Everyone out there is involved, there is a general meeting of the minds. We know this is wrong; we know we can do better.

Mr. HUTTO. Thank you very much, Mr. Brackett, Mr. Hutchens, and Mr. Sherbo.

I believe you were our final witnesses, and I want to thank all of the witnesses for their testimony today. It's been a very interesting and informative hearing on a very important issue and I want to remind all of the witnesses that additional questions may be submitted to you, and we'd appreciate your responses for inclusion in the record of today's hearing.

[The following information was received for the record:]

Mr. **Ferber**. Do the current rules make most reporter inquiries susceptible to being characterized as "Investigative Reporting"?

Answer. Yes. The current rules are so broad and vague that almost any inquiry could be interpreted as investigative reporting. We do not believe this is being done routinely, but it could be.

Mr. **Ferber**. In your view, as long as *Stars and Stripes* is a DOD entity, will it ever be a truly independent newspaper?

Answer. Independence is a perspective. To the extent an official DOD policy of "hands-off" by military officers exists, then the perception of independence would likewise exist.

Mr. **Ferber**. We understand that there are a number of military personnel working as reporters in *Stars and Stripes*. Are reporters severely limited as to their effectiveness by subjecting them to military justice and military law enforcement?

Answer. Enlisted military personnel working as reporters for *Stars and Stripes* impressed us with their concern about complete and accurate reporting. On occasion, they have had to overcome reluctance of senior officers to deal with them in a forthright manner because of their rank.

Mr. **Ferber**. Colonel Montgomery told the subcommittee that "at no time during the visit of GAO to my headquarters, or subsequently, was I fully presented with the specifics of the allegations; nor was I presented the opportunity to research and provide substance to the actual facts pertaining to my actions of those of my staff before the GAO received the judgments of the society of professional journalists. As a result, our side of the story was not heard."

Did the GAO provide the opportunity for Colonel Montgomery to comment?

Answer. As we did our analyses we (1) provided Colonel Montgomery an opportunity to discuss the individual allegations, (2) briefed the Pacific Command on the results of our evaluation at Pacific *Stars and Stripes*, and (3) provided DOD a draft of our report in which they officially commented. We met with Colonel Montgomery in Tokyo and later in DC and received his views on the allegations and included them as part of our draft report. Whether Colonel Montgomery provided additional comments to DOD that were not forwarded as part of its official response is a DOD management decision. It is our policy to let DOD speak for itself and not accept differing opinions that might evolve from a military service, major command, or an individual employee.

Mr. **Ferber**. The Rosen Commission said that exchange book stores were much more profitable than *Stars and Stripes* book stores. Was this your observation and why would this be so?

Answer. We did not audit the difference, but noted that the exchanges discounted books and sold more. This may account for the Rosen Commission statement.

Mr. **Ferber**. If the position of editor-in-chief were occupied by a civilian, what would be the benefit of having a military over him?

Answer. For those personnel in theater, you would probably need a military officer (commander) to act as liaison with the military community and to be responsible for personnel and quality of life issues. The military officer could also oversee the bookstores and other operations of his command. However, the civilian editor, whether located in theater or in the United States, should manage the editorial content of the newspaper.

Mr. **Ferber**. What measures would you recommend to protect civilian editors from influence of the commanders?

Answer. In theory, a civilian editor would be less influenced by a military commander. Moreover, if the civilian editor was located in the United States, in our free press environment, he would be less likely to be influenced by a military commander. Our recommended policy changes relating to such matters as investigative reporting and the advisory board would help, as would consolidating the newspapers' editorial department in the United States.

Mr. **Ferber**. In your view, are military public affairs officers qualified to operate newspapers and businesses like the *Stars and Stripes*?

Answer. First, you need to look at the qualifications of the individuals. Do they have a journalism background? Second, the mission of the newspaper is important. If it is to be a mission newspaper, then military public affairs officers are well suited to operate the newspaper. On the other hand, if the First Amendment mission is paramount, you need a journalist as the editor-in-chief.

Mr. FERBER. To what do you attribute DOD's reluctance to even at a totally consolidated *Stars and Stripes* operation as recommended in your May 1986 report? Also, in your opinion, did the Rosen Commission adequately address this issue which was the central finding of your review?

Answer. We do not feel the Rosen Commission seriously addressed consolidation. DOD, as they commented in our 1986 report, emphasizes the mission function of *Stars and Stripes* and therefore views them as theater newspapers that are published by the unified commanders. This is in line with their rationale for appropriated fund support.

We have also received a number of letters from the current and former employees which will be entered in the record.

[The following information was received for the record:]

The subcommittee has received a number of letters from former and current employees of the *Stars and Stripes*, Europe and Pacific. The writers allege widespread censorship, news management, and improper personnel and management practices. These letters will be placed in committee files.

[The following questions were submitted to be answered for the record:]

Question. Mr. Hart and Mr. Rizer: The Rosen Commission seriously questioned why the level of staffing in Europe is double the Pacific. Both newspapers are 28 pages long and have the roughly the same mix of wire service news and local theater news. Would you please explain this imbalance?

Mr. Rizer: The staffing imbalance reflects differences between the two theaters. Fundamentally, Europe is a much larger operation than the Pacific. For example, Pacific Stars and Stripes operates 35 bookstores, while European Stars and Stripes has 192. The Pacific Stars and Stripes distributes its newspaper and operates its bookstores through regional contractors serving specified areas. This has been highly successful in the Pacific where air transportation over water from a centralized distribution hub is most effective. On the other hand, Europe is primarily a land-theater where the majority of service members are located in Germany, the Benelux countries, and the United Kingdom. The European Stars and Stripes is issued in three editions for distribution to the Middle-East and the Mediterranean, the United Kingdom, and Germany. European Stars and Stripes believes its three editions are necessary to provide the latest news and sports coverage possible to its European readership. One edition is printed for remote areas and two editions are for central Europe requiring the plant to be operational 21 hours a day. Further, European Stars and Stripes does not contract out transportation finding it is more cost-effective and timely to provide transportation and logistics itself while using commissionaires at the bookstores. More staff is used at Europe to cover local events, sports, and features. Pacific Stars and Stripes have stated they would like to be able to provide these services, but cannot afford the additional resources. HQ EUCOM is evaluating staffing levels.

Question. Mr. Hart and Mr. Rizer: Proportionately, there are many more military in the Pacific Stars and Stripes than in Europe. 20 percent of the staff in the Pacific is military and four percent in Europe. Why are there so many, and wouldn't this contribute to censorship or the perception of censorship?

Mr. Rizer: The decision to staff Pacific Stars and Stripes more heavily with military personnel was made in the mid-1970s when the paper was suffering catastrophic financial losses during the drawdown of personnel after the Vietnam conflict. Military journalists have served with distinction with the Stars and Stripes in both Europe and Pacific, e.g., Bill Mauldin and Andy Rooney. Military reporters of Stars and Stripes are highly regarded by the civilian editors as well as their peers. We do not believe that a military presence at the newspaper in any way contributes to censorship or the perception of censorship.

Question. Mr. Hart and Mr. Rizer: The Rosen Commission found that there were 850 different kinds of magazines offered in Stars and Stripes bookstores and recommended that the number of titles be reduced to around 200. Has this been accomplished?

Mr. Rizer: European and Pacific Stars and Stripes make marketing decisions based on sales, demand, and service. When a title does not sell, it is no longer carried.

Question. Mr. Hart and Mr. Rizer: At sites where book stores are losing money, why don't you let the exchanges sell the books?

Mr. Rizer: We do allow exchanges to sell books where bookstores would not be profitable. In Europe, 13 unprofitable bookstores have been closed since 1987.

Question. Mr. Hart and Mr. Rizer: Why don't you discount books for sale instead of returning them to the publisher at government expense?

Mr. Rizer: We do discount books for clearance purposes. In addition, European Stars and Stripes discounts best-sellers and seasonal books and offers bargain book tables. However, if we cannot recover the wholesale price of a book, we must return it or destroy it to get full credit from the publishers. The commercial publishers' agreements with authors preclude donation. We do not return paperbound books since publishers will accept a certificate of destruction in most cases.

Question. Mr. Hart and Mr. Rizer: The DoD has consistently maintained that a military presence is needed in Stars and Stripes in case of mobilization. Yet, the Rosen Commission found that there was "little or no wartime planning." If the newspaper isn't prepared to shift to a wartime mode, then why do we need military?

Mr. Rizer: Both newspapers are already under active military command. In that sense, they are always mobilized. The two newspapers take their wartime direction from their respective Unified Commands based on the specifics of the circumstances and as directed by the Joint Chiefs of Staff.

Question. Mr. Hart and Mr. Rizer: The Rosen Commission said that Stars and Stripes book stores lost money when true costs were considered. The General Accounting Office said that they carried the newspapers. Do the book stores make money when all costs are considered?

Mr. Rizer: We believe so. They have been covering the cost difference of the newspapers.

Question. Mr. Hart and Mr. Rizer: For the past couple of years, the Stars and Stripes has made about a $10 million profit. Given this favorable position, do you have any plans to adjust the amount of appropriated funds that these newspapers receive?

Mr. Rizer: The Stars and Stripes' "profit," or net income, goes into the newspapers' sinking funds which are earmarked for future capital investments in buildings and equipment. The combined net income totalled $2,649,374 in fiscal year 1988 and both have projected positive revenues for FY89. With respect to appropriated funds, our objective is to hold the line on any growth and to seek reductions in appropriated fund costs where feasible. Because of constraints on appropriated funds, European Stars and Stripes is funding, via its sinking fund, 32 renovation projects worth $2,441,382 which otherwise qualify for appropriated funding. In the overwater transportation area, we are seeking to reduce appropriated fund costs by improving the efficiency of how we procure and ship books, magazines, and other materials from the U.S. to our overseas operations. European Stars and Stripes will be evaluating procurement of newsprint overseas compared to its current "Buy American" policy which could save appropriated fund transportation costs.

Question. Mr. Hart and Mr. Rizer: DoD has proposed the position of Ombudsman. Do you believe that this person should serve as Ombudsman over other DoD media?

Mr. Rizer: No. It would not be appropriate.

Question. Mr. Hart and Mr. Rizer: Who audits the Stars and Stripes, and how often are these audits conducted?

Mr. Rizer: In accordance with DoD Instruction 5120.4, AFIS funds commercial audits every two years at each Stars and Stripes. These audits are performed by U.S. accounting firms contracted for by the Stars and Stripes through the normal competitive procurement process.

Question. Mr. Hart and Mr. Rizer: Why do the Stars and Stripes bookstores sell their books at full cover price when books in the United States are usually discounted from the cover price?

Mr. Rizer: DoD strongly favors discounting of books. However, both Stars and Stripes must use bookstore revenues to offset the actual cost of the newspaper, making the papers more affordable for our DoD personnel overseas. In Europe, the newspaper costs roughly 39 cents per copy to print and distribute, but it is sold for 25-cents. This discount totals nearly $7 million yearly for European Stars and Stripes alone. Since the newspapers receive only limited advertising revenues, we rely on bookstore revenue to subsidize the newspaper discount.

Nevertheless, there are discounts. Europe has "bargain book sales" and other merchandising efforts. The paper states it offers 25 percent discounts on some best-sellers amounting to nearly $1.5 million in patron discounts annually.

Question. Mr. Hart and Mr. Rizer: (1) The Rosen Commission said that DoD should consider contracting for book store services. Have you considered a contract?

Mr. Rizer: We are focusing on making our operations more cost-effective. Totally contracted-out operations would not save money from our current operations. Such an operation would still require significant transportation costs of the type now borne by appropriated funds. Given the transportation distances involved and the number of separate nations with differing shipping or operational restrictions on commercial contractors, the best course of action remains to make our present system as cost-effective as possible. Our main concern is to provide the most reliable service possible at the least cost to our overseas personnel.

(2) Because exchanges are located in the same areas as Stars and Stripes and already sell over 50 percent of the books, wouldn't it make sense to allow them to provide book distribution and manage the stores as well?

Mr. Rizer: The percentage of books sold by exchanges actually is about 10 percent. In those areas where exchanges sell books, they are supplied as a service by Stars and Stripes acting as a wholesaler. Such actions are accomplished where the site cannot support a bookstore operation.

Question. Mr. Hart and Mr. Rizer: Has DoD looked at the possibility of remote printing or satellite printing of the Stars and Stripes?

Mr. Rizer: Preliminary investigations addressing satellite transmission to both theaters shows that such an operation would add to our costs, would require major capital investments and large start-up expenses, and would not provide timely newspapers.

At the current time, we are examining the possibility of transmitting the Stars and Stripes newspaper from Germany to the United Kingdom. Our initial indications even for this effort is that it may be prohibitively expensive.

Question. Mr. Hart and Mr. Rizer: The Rosen Commission said that department heads and staff are not trained to be better business managers and more budget conscious. Are you taking action to correct this?

Mr. Rizer: A lot of progress has been made in this area. Both of the Stars and Stripes now train and ensure their managers are actively involved in the budgeting process -- and that their job performance standards specifically focus on their effectiveness in managing resources. This continues to be a management-interest area, but it still needs improvement.

Question. Mr. Hart and Mr. Rizer: The Pacific Stars and Stripes job shop prints base newspapers and other materials. We understand that it charges $21 per hour. The newspaper's comptroller said that the Stars and Stripes should charge $70 per hour to recover true costs. Please explain what DoD is doing about this?

Mr. Rizer: The Pacific Stars and Stripes has stated that there were some costs being charged to the job shop at that time which were more properly chargeable to other departments. Adjustments to their accounting procedures were made to more accurately reflect the actual costs of the job shop, and job shop rates have been increased. Pacific Stars and Stripes reported their job shop made a profit of $46,600 in fiscal year 1988. We are still interested in the overall reporting of operation center costs, however, and intend to make this a matter of further review as we establish a common accounting base for the two newspapers.

Question. Mr. Hart and Mr. Rizer: Is the DoD going to centralize the procurement of magazines and books as suggested by the Rosen Commission?

Mr. Rizer: Yes, we are moving in that direction now.

Question. Mr. Hart and Mr. Rizer: The DoD commissioned study recommended publication six days a week instead of seven as a cost-cutting measure. What are your plans for implementation?

Mr. Rizer: The Stars and Stripes do not agree with this proposal believing it to be a disservice to our service members that would not save money. We determined that the Sunday newspaper represented an essential link with United States and military news reporting needs over the weekend. Those needs could not be satisfied with a six day publication. Therefore, we charged readers a higher cost and upgraded the quality of the newspaper so our personnel could get the kind of Sunday newspaper they would want to receive if they were located in the United States. The Rosen Commission also suggested that we upgrade the quality of the Sunday newspaper. We have received very favorable feedback on both newspapers' initiatives in this area and intend to keep improving their Sunday editions.

Question. Mr. Hart and Mr. Rizer: The Government of Japan is paying for more of the costs of Japanese employees. Yet, the cost for these employees doubled from 1986 to 1987. Shouldn't these costs be dropping?

Mr. Rizer: The doubling referred to was due in part to a 1987 reporting error of $.57 million by the Headquarters, U.S. Army, Japan. They erroneously reported Japanese labor costs of $2.27 million (up 45 percent from $1.17 million in 1986) whereas the correct figure was $1.7 million. This 45 percent increase resulted from the sharp decline in the dollar during that period. The increased role of the Japanese Government in paying for Japanese employees has been in the news for over a year, but it will not actually start until April 1, 1989. Barring further decline in the dollar, the cost to Stars and Stripes for Japanese employees will drop.

Question. Mr. Hart and Mr. Rizer: The DoD reply to the GAO recommendations mentioned the Stars and Stripes Management Action Group. Would you please describe the purpose of this Group.

Mr. Rizer: The Management Action Group is composed of senior level personnel that are highly qualified in business and management disciplines from my organization. In addition, other members of the group are from ASD Force Management and Personnel. Mr. Doug Earich and Mr. Clare Moelk currently serve as the members of the Management Action Group representing personnel and financial interests. Policy issues are coordinated through affected organizations represented on the Management Action Group before being forwarded to the Congress.

Question. Mr. Hart and Mr. Rizer: Why can't unsold books be provided to military personnel at remote outposts at no cost?

Mr. Rizer: The book publishing industry has been very strict in forbidding this practice. The agreements with publishers require destruction of paperback books and magazines. This is an industry-wide practice and involves copyright laws and royalties.

Question. Mr. Hart and Mr. Rizer: The Rosen Commission found that European Stars and Stripes is indirectly subsidizing the University of Maryland by keeping high inventories of textbooks. What is this costing Stars and Stripes, and why is it being done?

Mr. Rizer: A new agreement being finalized with the University of Maryland imposes a $500,000 cap on the European Stars and Stripes investment in textbook inventory. This is a significant reduction since the peak textbook inventory just prior to the Rosen Commission's visit was over $3 million. These textbooks are roughly a break even proposition for the European Stars and Stripes; however, it is an important service to the military student in Europe taking college courses which is not available through other sources.

Question. Mr. Hart and Mr. Rizer: The Rosen Report said the press rooms were very over staffed. What has been done about this?

Mr. Rizer: Both newspapers defend the number of people that they need in the press room. The Ombudsman will evaluate Rosen Commission observations on editorial/bureau staffing levels and practices.

Question. Mr. Hart and Mr. Rizer: Has any consideration been given to using commercially produced magazines as supplements to the Stars and Stripes newspapers?

Mr. Rizer: Yes. We have received a request from a commercial publisher which we forwarded to the two newspapers. At the present time, both newspapers are still evaluating the request and, in response to the Rosen Commission, are also pursuing purchasing insert equipment. Other magazines have been approached, but they did not feel that there would be a sufficient national advertising base to support the DoD request.

Question. Mr. Hart and Mr. Rizer: Have you looked at contract operations for any or all Stars and Stripes functions?

Mr. Rizer: We are currently looking at commercial freight-forwarding and the consolidation of bookstore purchasing operations here in the United States. In addition, European Stars and Stripes has evaluated transportation contracts in Europe and determined they were not cost-effective. Pacific Stars and Stripes currently uses area contractors throughout the Pacific; however, inflation, labor costs, and the shrinking United States dollar have caused one of these regional contractor operations to default with loss of service and increased cost to the Pacific Stars and Stripes.

Question. Mr. Hart and Mr. Rizer: The Rosen Report said that over half of the book inventory in the Pacific is obsolete. What is the value of this inventory and what is being done about this?

Mr. Rizer: The hardcover book inventory at the end of fiscal year 1988 was $1.91 million. As with any book inventory, a portion of this inventory is obsolete; however, Pacific Stars and Stripes does not agree that between 19 percent and 50 percent of its hardcover inventory is obsolete. Pacific Stars and Stripes is making a concerted effort toward better inventory control with the timely call-in and return of older books. Between 1986 and 1988, they reported that hardcover sales have increased by 38 percent while hardcover inventory increased by only 9 percent. We believe that the implementation of a common accounting system for the two Stars and Stripes will provide opportunities for improvements in inventory control.

Question. Mr. Hart and Mr. Rizer: The Rosen Commission found that use of commercial freight forwarders would be more efficient to ship Stars and Stripes books and newspapers. Is DoD considering moving in this direction?

Mr. Rizer: Yes. We are working with Pacific Stars and Stripes and a major U.S. freight forwarder to change the way Pacific has books and magazines shipped from the U.S. We are convinced that by consolidating, controlling and expediting shipments, the freight forwarder operation offers cost savings and other important advantages over the random, parcel post method that Pacific presently uses. The freight forwarder's shorter and more predictable transit time will enable Pacific to reduce its pipeline inventory investment. In addition, we expect inventory losses in shipment and the resultant disputes with the publishers to be favorably impacted.

Question. Mr. Hart and Mr. Rizer: If Stars and Stripes is sold to the troops and not distributed, then it appears it is not a command information newspaper. Would you please comment?

Mr. Rizer: The Stars and Stripes are not command information newspapers. They are primarily First Amendment-type newspapers; however, they do have the added mission of providing news pertaining to their Unified Commands (PACOM AND EUCOM), and serve to dispel morale-damaging rumors. In wartime or combat circumstances, the paper involved would be totally paid for by appropriated funds for free delivery to combat service members. There is no reason why this should create problems. From the inception of the Stars and Stripes, DoD's purpose has been to provide our overseas readership with a factual, credible newspaper that reports on all aspects of their lives and the military communities in which they live.

Question. Mr. Hart and Mr. Rizer: You are preparing to go out with a contract to study financial consolidation of Stars and Stripes, Pacific and Europe. Have you looked at the availability of off-the-shelf systems?

Mr. Rizer: Yes, the Rosen Commission recommended using off-the-shelf software where possible in automating the Stars and Stripes financial management systems. The Statement of Work for our financial consolidation study contract quotes this Rosen Commission recommendation. We will be looking to use off-the-shelf systems wherever possible.

Question. Mr. Hart and Mr. Rizer: The Rosen Commission was asked to look at reducing appropriated fund support. The Report included a number of cost-saving measures. Does the DoD plan any reductions?

Mr. Rizer: We are actively pursuing a number of Rosen Commission measures aimed at reducing appropriated fund costs, mainly in the overwater transportation account. We are focusing on improving the efficiency of how we procure and ship books and magazines from the U.S. to the overseas store locations. Also, a new agreement is being negotiated with the University of Maryland to reduce the volume of textbooks shipped to Europe, and the newspaper has provided that the student (rather than appropriated funds) pay the shipping cost in special-order circumstances.

In the Pacific theater, we are working with a commercial freight-forwarder to assist Pacific Stars and Stripes to reduce transit time and afford tighter control on its book and magazine inventory in transit. In addition, the feasibility of purchasing newsprint overseas rather than from the U.S. can be examined again as a method of reducing appropriated fund transportation costs.

Question. Mr. Hart and Mr. Rizer: The General Accounting Office said that Stars and Stripes could save $2.5 million if the newspapers were consolidated and another $700,000 if it was located in the United States while not losing its local character. This was the GAO's primary recommendation, yet the Rosen Commission did not look at it to any great degree. Please explain.

Mr. Rizer: These recommendations were apparently based on extrapolations from older studies and recommendations. When reviewing these older recommendations and studies, we found that there was no supporting research. They were in the category of "it appears that" or "we believe that it might be possible." Our preliminary look shows that such consolidation would require considerable initial outlays far exceeding the reserves of the two Stars and Stripes.

Question. Mr. Hart and Mr. Rizer: The USA Today newspaper has a state-by-state report. I understand that the associated press owns this report and won't sell it to Stars and Stripes. Would you explain why?

Mr. Rizer: The stateside round-up in question comes from the Gannett news chain which requires their newspapers to submit a news and sports item daily for use in its USA Today Round-Up. USA Today also buys its MEGASTREAM transmission system from AP. It is very costly. We asked, but USA Today could not sell the system to us. AP confirmed the system belonged solely to USA Today. In the meantime, Pacific Stars and Stripes has instituted a regional round-up format for wire-service copy that they accomplish themselves in response to the Rosen Commission recommendation.

Question. Mr. Hart and Mr. Rizer: What are the provisions for severance pay of local nationals?

Mr. Rizer: Severance pay provisions vary from country to country and are generally quite complex. For example, severance pay for Japanese employees is based on each employee's average monthly pay, length of service, age, and the type of action causing the halt in employment. Funds to cover Japanese severance pay are required by law to be kept on account. Pacific Stars and Stripes currently has $1.397 million set aside for this purpose.

Question. Mr. Hart and Mr. Rizer: Your office has said that appropriated fund costs are not included in Stars and Stripes financial statements because Stars and Stripes does not receive appropriated funds. At last count, we noted about $8 million a year. Please explain.

Mr. Rizer: We have never denied the existence of appropriated fund support provided to both Stars and Stripes. Direct and indirect appropriated fund support is reported through the Army financial system and is included in the Army Community and Family Support Center report. However, the Stars and Stripes have very little control in this area since the 7000.12 report procedures apportions costs of services to Stars and Stripes after the fact. At your request, we established an appropriated fund baseline last year and will evaluate it in terms of this year's Army Community and Family Support Center report.

Question. Mr. Hart and Mr. Rizer: In its reply to the GAO report, the DoD said that "Stars and Stripes operate similar to commercial newspapers." In another place DoD said that "They are not like commercial newspapers". Are they or aren't they?

Mr. Rizer: The Stars and Stripes newspapers are a hybrid. They are more like commercial newspapers than installation newspapers, a fact recognized by the GAO. However, the Stars and Stripes are still government newspapers and are subject to constraints imposed by Congress. As an example, the newspapers may not take an editorial position because they are government newspapers. As another example, the newspapers are sharply constrained in advertising revenue. In those cases, the Stars and Stripes are not like commercial newspapers.

Question. Mr. Hart and Mr. Rizer: The General Accounting Office submitted a report on reducing appropriated funding. Your office then chartered the Rosen Commission to study this matter for a year. Now management is undertaking at least five more studies of Stars and Stripes issues. When are we going to stop studying and start doing?

Mr. Rizer: I do not understand the reference to "at least five more studies." The two Stars and Stripes and their Unified Commands are implementing those Rosen Commission recommendations within their purview. Management improvements have enabled them to stay relatively healthy financially in the face of adverse currency fluctuations. We have augmented the AFIS with an experienced business and contract expert to focus on Rosen Commission recommendations and general business improvements. We are engaged in a competitive procurement process to award a financial consolidation study contract. We are pursuing a freight forwarding arrangement to improve the way PSS has its books and magazines shipped from the U.S. And, we are arranging a Stars and Stripes book and magazine procurement conference for the May/June 1989 timeframe to consolidate this function where it would be most cost-effective to do so.

Question. Mr. Hart and Mr. Rizer: Do you believe that there is any censorship or commander news management over DoD radio or television?

Mr. Rizer: We have worked diligently and consistently to guarantee there is no censorship on the Armed Forces Radio and Television Service (AFRTS). Our policies dictate there be no censorship, and we communicate that to military Commanders. AFRTS outlets operate in foreign countries with the approval of the host government which assigns frequencies and power authorizations. To that extent, host nations are able to take a position on what is aired on their frequencies. There are two sensitivity considerations which are permitted by DoD policy:

a. Host nation sensitivities can restrict certain topics from being broadcast over national frequencies. Such restrictions must be based solely on official determination by the U.S. Embassy. The DoD's intent is to minimize these restrictions.

b. Legal owners of programs can prohibit AFRTS from broadcasting certain programs in specified geographic areas when they sell those programs to foreign broadcasters who pay for their exclusive use.

Our agreements with the major American broadcast networks and independent programmers state that we broadcast their news and entertainment programs without editing. In the few instances where a host nation sensitivity was identified, the entire program was not aired. The DoD has no intention of editing portions of programs.

Today AFRTS broadcasts over-the-air in twenty-one countries. We have host nation sensitivities in only eleven of them, and we're working to reduce that number.

Question. Mr. Hart and Mr. Rizer: Please describe the prohibition against investigative reporting by Stars and Stripes journalists. How do you differentiate between investigative reporting and other reporting?

Mr. Rizer: Stars and Stripes cannot be an investigative agency. Moreover, the reporters are government employees and they have a legal responsibility to report to their supervisors allegations of fraud, waste, abuse, or an observed crime so that investigation by the proper authorities may begin immediately. Those are Federal policies, not public affairs policies. The reporters at Stars and Stripes have stated that they needed further clarification, and we agreed that such clarifications will be part of the overall review of the DoD Instruction. We do carry investigative stories provided by commercial news services.

Question. Mr. Hart and Mr. Rizer: In 1986, following the assignment of a new Editor-in-Chief for Pacific Stars and Stripes, a Pacific Fleet memo said: "Change in leadership at Pacific Stars and Stripes with new emphasis on balance in all stories has led to visible reduction of bad news stories on the front page and has eliminated adversarial relationship." Please explain this sudden change.

Mr. Rizer: The change in leadership referred to in the quotation is Colonel Edwin Montgomery's assuming command of the Pacific Stars and Stripes. Colonel Montgomery took over a paper that had experienced 15 straight months of declining circulation and was running deeply in the red. To our knowledge, Colonel Montgomery has always insisted that the selection of news for the front page would be made strictly on the basis of the relative news value and importance compared to all the stories available that day. Whether the stories dealt well or poorly with the military, or with the military at all, was not to be the determining factor.

Under Colonel Montgomery's leadership, Pacific Stars and Stripes has enjoyed circulation increases in 16 of the last 19 months and is now marginally profitable.

Question. Mr. Hart and Mr. Rizer: Please describe the rationale behind some of the prohibitions placed on Stars and Stripes such as no political reporting, no political polls, no stories about armed forces broadcasting, and no investigative reporting.

Mr. Rizer: The issues surrounding investigative reporting are complex. I addressed them earlier and a more detailed explanation which was supported by the GAO is included in their report. I feel that the Stars and Stripes adequately cover political reporting and political polls with wire-service copy.

Stars and Stripes is a government publication and, at the direction of Congress, cannot take an editorial stance. In fact, we should not even have the appearance of taking an editorial stance. In those terms, the current position of the paper to present all sides of political issues is solid policy as it lets the readers individually determine their response. I frankly know of no prohibition against carrying stories about Armed Forces broadcasting.

Question. Mr. Hart and Mr. Rizer: GAO recommended a content analyses be conducted periodically. DoD says that content analysis is not applicable to Stars and Stripes. Isn't content analysis one of the duties of an Ombudsman?

Mr. Rizer: DoD disagreed with a comprehensive statistical analysis of the newspapers for the reasons that we stated in our formal response to the GAO. However, we feel that general content analysis of the two newspapers in comparison with commercial metropolitan newspapers has merit.

Question. Mr. Hart and Mr. Rizer: What is the DoD policy regarding qualifications for the position of Editor-in-Chief?

Mr. Rizer: The position of Commander/Editor-in-Chief is probably one of the most demanding and rewarding positions in the military. It requires a wide-range of experience in business, journalism, and public affairs. The DoD policy is to fill the position with the most qualified senior officer available at the time. It is a nominative process. We ask the Military Departments to nominate their most qualified officer.

Question. Mr. Hart and Mr. Rizer: Does DoD have any plans to produce service magazines like Soldier and All Hands as civilian enterprise publications carrying advertising?

Mr. Rizer: The Army and Navy have indicated that they would like to have their service magazines supported by advertising. DoD has not established a consensus for this position yet.

Question. Mr. Hart and Mr. Rizer: Do you believe that credibility of these newspapers has been damaged and, if so, won't it take major change to restore the credibility?

Mr. Rizer: Credibility suffers anytime a publication is accused of censorship. We are concerned about these allegations. At the same time, it is important to note that none of these allegations has been actionable after research by the Unified Command and AFIS. We have asked individuals to provide us with evidence, but none has been provided. Instead, we have been asked to remove military personnel from the editing process because of accusations of censorship. The EICs and their Unified Commands have assured me they follow DoD policy and that there will be a free flow of information without censorship or news management. Nevertheless, we will evaluate our policies and procedures as carried in DoDI 5120.4. Further, the DoD has also established the position of OMBUDSMAN.

Question. Mr. Hart and Mr. Rizer: What controls exist to prevent censorship or news management of military broadcast news?

Mr. Rizer: AFIS is aware of its mission to guarantee a free flow of news to our forces around the world. To ensure this, DoD Directive 5120.20 "American Forces Radio and Television Service" specifically addresses the subject of censorship. It states that "AFRTS outlets adhere to AFIS broadcast policy, which prohibits censorship, propagandizing, or manipulation, and which mandates that overseas DoD personnel and their dependents are entitled to the same type of information and entertainment programming as their fellow citizens in the United States."

Our agreements with the broadcast industry prohibits any editing or censorship of programs.

Question. Mr. Hart and Mr. Rizer: Does DoD plan any cable TV ventures?

Mr. Rizer: We plan to use cable where over the air frequencies cannot be made available.

Question. Mr. Hart and Mr. Rizer: We understand that two DoD studies were conducted on Stars and Stripes consolidation and they concluded that over $2 million would be saved each year by consolidation without significant degradation of service. Who conducted these studies, and why hasn't consolidation taken place?

Mr. Rizer: Those two studies were accomplished by the DoD in 1974 and 1977 and served as a basis for some of the GAO extrapolations that Stars and Stripes could be consolidated. In both of these studies, consolidation was only one of many ideas that were put forth aimed at reducing the costs of operations. When we reviewed those studies, we found that there was no supporting research. Their recommendations were in the category of "it appears that" and "we believe it might be possible." Further, we also noted the authors indicated that their consolidation recommendations needed a lot more detailed study and planning before consolidation could be implemented.

That situation has not changed. A consolidation cost-benefit, feasibility, and planning study is very costly and time-consuming. At the same time, such a study does not provide the immediate operational improvements or cost-reductions recommended by the Rosen Commission. Our preliminary evaluations after the Rosen Commission have indicated that consolidation would require considerable initial outlays that would far exceed the reserves of the two Stars and Stripes. We are continuing to improve the system while at the same time consolidating activities which improve operations, promote economies of scale, and are cost-effective.

Question. Mr. Hart and Mr. Rizer: Stars and Stripes bureau chiefs and reporters are very much dependent upon commanders for their housing, food, and other types of support. Is this arrangement really conducive to unbiased reporting of local news?

Mr. Rizer: The "dependency" cited is misleading. Not all bureau chiefs live in Government housing, and those who do not live in that housing receive a comparable housing allowance that is in accordance with well established procedures. Such privileges are granted regardless of profession and local commanders cannot withhold housing, commissary, exchange or any other authorized privilege on whim. No commander to our knowledge has ever been so unwise as to try to use these privileges as a means to apply pressure on a reporter. There's very little difference between this practice and the privileges afforded to commercial newspaper reporters. Commercial news war correspondents are provided this type of logistics support by the military, and it does not seem to bias their reporting.

Question. Mr. Hart and Mr. Rizer: The Subcommittee has heard from many people working in Stars and Stripes who believe their voices are not being heard on the censorship issue. Is there a mechanism within DoD for listening and responding?

Mr. Rizer: Yes. We have examined allegations in the past and fully responded to the Congress. Further, there are clear grievance channels available to any employee through the Inspector General. By definition, the Inspector General function is an investigative agency that is required to evaluate such allegations. Nevertheless, because of the unique nature of the Stars and Stripes, we have established an OMBUDSMAN position to help clarify grievances and determine the substance of any complaints. To that end, we will continue to resolve problems, grievances or misunderstandings within the system.

Question. Mr. Hart and Mr. Rizer: The Subcommittee has heard that management of the Stars and Stripes uses the personnel pay and compensation system to punish people who complain. Have you looked into this allegation?

Mr. Rizer: CINCPAC replied to us that there was no substance to the allegations noted in the GAO report, and we are satisfied with this response. We are not aware of any further specific information, but would be happy to reply to specific allegations.

Question. Colonel Montgomery and Colonel Cook: The Rosen Commission recommended that each of the Stars and Stripes operating departments be established as separate profit centers. Has this been done?

Colonel Montgomery: PS&S departments that offer a product or a service for sale have always been reported and evaluated as profit centers. They include the newspaper, books, periodicals, advertising, unit news, and the print plant job shop. Operating costs of departments that do not contribute to profit (e.g., comptroller, auditor, civilian personnel, etc.) are computed and apportioned as indirect costs against the profit centers.

Colonel Cook: We separately account for the various profit centers, including newspaper operations, advertising, printing job shop, and book/magazine sales. The only one which was not designated a separate center during the Rosen visit was the job shop and that has since changed.

Question. Colonel Montgomery and Colonel Cook: The Rosen Commission notes that it costs more to print the advertising than your advertising income. Is this true, and if so, why don't you increase your advertising rates?

Colonel Montgomery: No. Advertising rates have been reviewed and raised since the visit of the Rosen Commission, and are reviewed annually for comparability with similar sized stateside papers. For example, in FY88 the advertising department sold almost $1.1 million in advertising. The cost of newsprint, inks, freight, etc., totaled $251 thousand. Department salaries and other administrative expenses totaled $138 thousand. Indirect overhead costs apportioned to the advertising department were $131 thousand. The FY88 profit, therefore, was $560 thousand.

Colonel Cook: The European Stars and Stripes advertising program is profitable. For instance, during FY88, the following figures apply:

(1) The net sales for all advertising were $1,650,817.
(2) The direct costs for all advertising were $553,508.
(3) The gross profit was $1,097,309.
(4) The allocated expenses were $164,596 giving a net profit of $932,712.

Question. Colonel Montgomery and Colonel Cook: How much money did the Stars and Stripes make last year? What are your cash reserves and what do you intend to do with this money?

Colonel Montgomery: PS&S made a net profit of $732,272 in FY88.

Our cash position at the close of FY88 was $6.233 million, including sinking funds of $1.397 million for separation allowances (severance pay) and $3.351 million for capital expenditures. The former holds funds required by law to be kept on account. The major uses of the latter will be the completion of the bookstore construction program, purchase of a new editing system, and purchase of an upgraded newspaper press. Of the remaining reserves, $1.061 million is in cash accounts needed for day-to-day operations (to include foreign currency accounts). That leaves $423 thousand in other funds deposited to the Army's NAF centralized investment program (along with the two sinking funds). Allocation of the funds as described appears to us as a prudent course of action to cover contingencies and unforeseen currency fluctuations.

Colonel Cook: Net income for FY88 was $1,917,069. ES&S' combined sinking funds currently contain approximately $16 million. Each sinking fund was approved by the Fund Council and will enable ES&S to purchase a new printing press, expand cramped bookstores, construct new warehouses and an editorial building extension, and perform other major capital improvements.

Question. Colonel Cook: Did the increase in the newspaper's price have any effect on circulation? What was the financial impact?

Colonel Cook: Circulation of the newspaper was expected to decline approximately 7 percent, but it actually declined approximately 5 percent. Circulation since that time has improved slightly and is nearly at the same point it was prior to the price increase.

Question. Colonel Montgomery and Colonel Cook: When was the last readership survey conducted, and how long was it before the last survey?

Colonel Montgomery: A 'focus group' survey was conducted by a PS&S team in the Fall of 1985 at military installations in Japan, Guam, Korea and the Philippines. As reported by the Rosen Commission, the survey prior to that was in 1983. A new in-depth survey has been developed, and was forwarded to AFIS in September of 1988 for action necessary to receive formal DoD approval.

Colonel Cook: Our last readership survey was in 1981 and the one prior to that was in 1978. We have prepared a new readership survey and it was forwarded to the American Forces Information Service on 17 February 1988. In the meantime, we plan to administer an informal shorter version of this survey to approximately 400 readers through solicitation at selected military shopping centers.

Question. Colonel Cook: We understand that you conducted an employee survey recently. Would you please share the results with the subcommittee?

Colonel Cook: The employees responded to a survey I distributed in October of 1987. The questions focused on such issues as their preference for a military or civilian editor-in-chief, their perceptions on how agencies/individuals outside the organization may attempt to influence news coverage, the degree of command pressure exerted on reporters and editors to cover/not cover certain types of stories, whether a military or civilian EIC would be more or less likely to uphold the first amendment and similar questions. Opinions were wide-ranging with no clear-cut dominant viewpoint emerging on many of the questions. Some people preferred a military EIC whereas others felt a civilian was more appropriate. Most felt there was a definite need for military reporters in the organization and with respect to instances of alleged censorship or news management, the situation involving German General Kiessling was the most frequently raised case. Some people responding to the questionnaire cited outside interference as the largest problem facing the organization whereas others felt internal decisions were of the most significance. The underlying point that emerged in my analysis was that there are many strongly held viewpoints, that the staff cares deeply about the First Amendment, and that they want very much to ensure the European Stars and Stripes is operated in a journalistically sound way and that we be permitted to operate similarly to how newspapers in the United States operate. Copies of the responses were provided to the GAO and can be made available to the Committee if desired.

Question. Colonel Montgomery and Colonel Cook: We understand that there is about $15 million in obsolete inventory in your bookstore operations. How did this come about? Are you doing anything about drawing this down?

Colonel Montgomery: The total cost to PS&S of our inventory at the end of FY88 (to include hardcover books, paperback books and periodicals located in bookstores, Exchanges, other third party outlets, and in PS&S warehouses) was only $2.97 million. While there is always room for improvement, we work hard to control our inventories and move old merchandise. That inventories grew only 8.3% since FY86, but sales increased 17.6% in that period, is good indication that we are managing our product lines well.

Colonel Cook: We do not maintain obsolete inventory. Our total inventory, all retail bookstore merchandise in the system, has ranged from $10.9 million in FY86 to $12.7 million in FY88 for an average of $11.7 million over the three years. Our inventory turnover rate is 3.5 annually vs. the industry average turnover of 2.5 annually.

Question. Colonel Cook: The University of Maryland and Stars and Stripes have an agreement to provide textbooks to military overseas. Would you please describe the new agreement between the University of Maryland and European Stars and Stripes?

Colonel Cook: The new agreement caps the inventory at $500,000 and Maryland pays bank interest rates on the excess. Maryland has also been called upon to pay excess handling fees on books that are returned to Darmstadt due to course cancellation or excess ordering. The new contract puts Stripes, not Maryland, in control of the program by creating added expenses to Maryland for inefficient operations.

Question. Colonel Cook: We understand that the Stars and Stripes, Europe has a New York office. What does this office do and how much does it cost?

Colonel Cook: European Stars and Stripes does have a New York office, employing about 20 personnel. They perform very valuable liaison with the American publishing industry, much of which is headquartered in New York City. Most of the personnel work in our Bayonne New Jersey warehouse and are used to expedite and consolidate retail bookstore materials for shipment to our Darmstadt Central Distribution facility. The New York office operation costs were $508,000 for FY88.

Question. Colonel Cook: The Stars and Stripes, Europe made $2.3 million last year but you discontinued the five percent discount on books. Please explain this action.

Colonel Cook: Europe made $1.9 million in FY88. The five percent discount was discontinued in 1986. That year we sustained a loss of $87,544 and, due to the declining dollar, we were forced to raise the newspaper price to 25 cents at the beginning of FY87. Although the discount was discontinued, we still maintain a 25% discount on Top 10 best-sellers which amounts to $1.2 - 1.5 million in discounts to our customers each year.

Question. Colonel Montgomery and Colonel Cook: Is circulation up or down?

Colonel Montgomery: Circulation at PS&S is up. Circulation had fallen for 15 months in a row (relative to the same month the previous year) when I arrived in September of 1986. Circulation has turned around, and has now risen for 16 of the last 19 months. It was up 8% at the end of 1988 over December of 1986. A levelling off has been noted in the past few months, however, but appears due primarily to an increased abort rate on MAC flights that carry the paper to the Philippines and Okinawa, with a resultant loss in sales in those areas. MAC is used for those routes instead of commercial aircraft in order to save appropriated funds.

Colonel Cook: Circulation has averaged 130,000 - 135,000 over the past three years. There have not been significant fluctuations in circulation figures during that period.

Question. Colonel Montgomery and Colonel Cook: Are there plans to include color in the Stars and Stripes?

Colonel Montgomery: PS&S uses color routinely on the front and back pages of the newspaper, in the color Sunday comics, and in the new Sunday magazine. The rebuilt press programmed for purchase this year will expand our color capability to other pages in the newspaper.

Colonel Cook: We use spot color in Europe but presently do not have the capability to do four color work. We are currently in the procurement process for an offset four color deck to supplement our current printing press which is over 20 years old. We expect to have this capability after the lengthy building process necessary to erect a press of this type (which typically takes approximately 30 months following contract award).

Question. Colonel Montgomery and Colonel Cook: Does career military officer training adequately prepare officers for the task of running a newspaper like the Stars and Stripes?

Colonel Montgomery: Certain career patterns in the military would of course prepare one better than others, but the overall answer is 'yes'. A career officer having had command should have the leadership and management skills needed to run a multi-million dollar business. (The budget of an Air Force wing commander and the number of his personnel, for example, greatly exceed that of a Stripes Commander/Editor in Chief.) Although the Editor in Chief does not lay out copy or crop photos, he must have an excellent knowledge of writing and editing in order to oversee the paper. Public affairs experience or staff experience at the major command level should therefore be required. A thorough knowledge of the profession of arms and of the military readership is essential. Experience with overseas conditions and in dealing with foreign officials is also important. At least half a year with a major newspaper (as part of the Air Force program 'Working with Industry') would be an extremely beneficial addition to the officer's preparation once selected -- and I have recommended this course of action to American Forces Information Service.

Colonel Cook: The training I received as an officer prepared me for many of the responsibilities I hold in managing a large business and daily newspaper. I believe the officers selected for the position of Editor-in-Chief should also receive specialized "Training with Industry" at a reputable daily newspaper in the United States in order to become familiar with certain unique areas such as circulation, printing and composition, advertising newspaper management and to see first-hand how a modern daily newspaper selects news, edits it, displays it, and deals with day-to-day concerns of readers. A graduate or undergraduate degree in journalism and print media journalism experience should be mandatory prerequisites in my opinion. Business education and/or experience should be mandatory at either the Editor-in-Chief or Deputy Editor-in-Chief level.

Question. Colonel Montgomery and Colonel Cook: How often do you get into disputes with reporters over your handling of a story? Do you encourage openness among your reporters?

Colonel Montgomery: Differences of opinion with reporters are relatively rare because I have little direct contact with them. Occasionally, there have been stories sent back to the bureaus for additional work to get both sides to an issue; this happened more often when I first arrived, but now occurs only once every few weeks. (The thoroughness of our reporting has improved.) Differences of opinion with other editors are less rare, but over 99% of the editorial decisions at the paper are made under civilian supervision. I and/or my Deputy do not get involved with the news selection process until the daily editorial staff meeting where a 'budget' of all the stories proposed for that day's 'live' pages is reviewed. Discussions of the stories are the purpose of the meeting, but changes to the budget are infrequent -- say, twice a week or less -- and not all the changes come from the military editors.

Colonel Cook: I have many discussions with editors on story content and approach but relatively few directly with reporters. The discussions I do have are professional ones, not adversarial in nature. I believe European Stars and Stripes' reporters find me open to any reasonable suggestion for story ideas, treatment and focus, and I certainly encourage them to talk. Judging by the traffic in and out of my office, I believe they are in no way intimidated by dealing with an Army colonel on editorial matters.

Question. Colonel Montgomery and Colonel Cook: The Stars and Stripes has a dual mission of providing for the free flow of news and providing command information. Does your dual mission place you in a no win situation?

Colonel Montgomery: No. Although the requirement for an uncensored paper results in the publishing of so-called "bad" news for local commanders, problems do not arise when the news is reported accurately and the issues are presented fairly. Complaints from commanders are the exception, not the rule, and -- frankly -- are, more likely than not, well founded. (Mistakes in the newspaper business are not acceptable, but they are not unusual.)

The "no-win" situation confronting an EIC arriving at PS&S to face an already entrenched opposition from civil servants is his inability to make the personnel changes he could make in either an all-military organization or in a normal civilian newsroom. This frustration mounts when his actions are carefully and selectively removed from their proper context, reported under the protection of anonymity, and then investigated by a group that effectively denies him the opportunity to tell his side of the story.

Colonel Cook: I have never felt our dual mission places me in a "no-win" situation. I have recommended a number of procedural changes to be included in DoD Instruction 5120.4 and the U.S. Europe Command equivalent directive. These recommendations are to clear up any misunderstandings that may have developed over the years. My job is very challenging but it is certainly not a "no-win" situation, and I am proud of the newspaper and the way we cover the news.

Question. Mr. Brackett: Is it your experience that Stars and Stripes reporters are treated differently from other journalists by the commanders? Does stonewalling occur?

Mr. Brackett: Yes, in my opinion Pacific Stars and Stripes reporters are frequently treated differently from other journalists. Commanders' public affairs officers tend to view PS&S journalists as part of a military chain of command which they can and do seek to influence for their own purposes. The most common method of exerting influence is to complain to the PS&S commander/editor in chief and/or the unified command about stories or news queries which they find negative or sensitive to their commands. These complaints are then vigorously inquired into by senior management with a resultant "chill effect" on the reporters in question. It has been my personal experience that only a fraction of the complaints lodged by PAOs prove to be justified or partially justified.

In the case of honest mistakes, there is very little understanding by PAOs and senior management that daily journalism is an intensely human business; that errors will and do occur. Further, PAOs are not encouraged to lodge their complaints at the bureau chief or senior editor level, but to take them to the highest levels of management at PS&S. Complaints about PS&S stories should be directed to the appropriate bureau or editorial desk level where they can be properly evaluated and effective measures taken. This is seldom done.

At PS&S, reportorial errors sometimes have been inflated beyond their true significance in order to achieve other purposes. A classic example of this point is the New Jersey battleship story misquote that occurred in 1986. At a press conference at Misawa Air Base, in northern Japan, a young military reporter thought he heard a U.S. Navy admiral confirm Japanese media reports that the battleship New Jersey would make a port call in Japan. The admiral in fact had not confirmed the port call. Compounding this mistake was the fact that the reporter, the PS&S Misawa bureau chief, had tape recorded the admiral's remarks. In reviewing the tape as he wrote the story, the reporter failed to detect his error.

This was a garden variety mistake for young reporters learning their craft. At the time, PS&S editorial was under a unified command imposed prior restraint order not to print anything about the visit of the battleship to Japan. This was the only time the newspaper had been placed under such a prior restraint - a procedure unknown to U.S. journalism since news blackouts are generally understood to be unconstitutional - and PS&S senior editors were not properly advised about the restraint or how to execute it. We were not told that the restraint order was given because the information was classified. The Japanese and U.S. media regularly aired the battleship's impending visit and we had carried several stories listing the battleship's other port calls in Asia.

Besides, the fact that a ship intends to make a port call at a given location is not normally classified per se. Classification usually occurs only when the port call location and the dates of the visit are linked together. Then too, PS&S had already printed a story on April 26, 1986 announcing the ships visit and accurately giving the month of the visit, August 1986. This information was a pickup from the Japanese news media.

The Misawa story did not appear on page one, but on page 16, well into the back of the paper's news section. Nor did the misquote lead the story. It came in the penultimate paragraph and was only a partial remark included in a larger statement. To any experienced editor or PAO, this placement by the reporter, demonstrates conclusively the value he placed on this particular bit of information and underscores the honesty of the mistake made. Had the mistake been willful, either on the part of the reporter or the editors who handled the story, it is logical to assume this information would have been given greater placement prominence. It is common journalistic practice to place less significant information near the end of a story to make editorial cuts, if needed, easier for desk editors. Also, and this is important to note, the reporter did not give the date of the battleship's visit, he simply said "soon."

It is evident from the above that accusations that the paper printed classified information in this episode are little more than self-serving nonsense. Certainly at the time of the aggressive complaining by the PAOs about the story, no one was charging that classified information had been printed. The complaint was strictly that we had broken the illicit prior restraint order imposed by the Pacific Command PAO.

The story - it was little more than a rather dull press conference report - was passed into print by both the local reporting editors and those on the news desk. This occurred because the editors had not been properly informed by the military officers at PS&S about the order or how to effect it (the deputy commander, Lt. Col. Kelley, and the deputy editor in chief, Lt. Cmdr. Griffin, had responsibility for implementing the order). For example, before this incident, I was not informed by anyone that a prior restraint order was in effect and I was then the acting managing editor of the newspaper. This is valid proof of how poorly the restraint order was promulgated to the editorial staff by senior management. I spoke to several editors about the restraint order, asking them for their understanding of what we were being told to do. Each gave me a different answer, none of them correct as it developed.

There was so much confusion on this point that I finally approached Lt. Col. Kelley, learned the details and typed a formal directive to the editorial staff spelling out the New Jersey policy. I have a copy of this directive if you would care to read it. I believe management did not put the policy in writing earlier because they knew it was a direct violation of the DoD charter and therefore did not want a written record. The prior restraint order certainly was not effected according to the DoD charter.

The results of this very honest mistake by a young reporter came almost as fast as the inflation of the error by the complaining PAOs. I was ordered to give the reporter a written warning. Colonel Stevenson was reluctant to have me do this, in large measure I think because he fully realized that the PAO complaints were not about the misquote, but rather deliberate sniping at him and his stewardship of PS&S by certain PAOs who wanted him removed. Stevenson tried very hard to operate an honest newspaper and not tamper with the news. In my judgment that is the main reason he was fired.

The Misawa news bureau was ordered closed and has not been reopened despite the fact that we have 15,000 servicemen and dependents stationed there, their activities largely unreported on by this newspaper. The reporter was not allowed to report on major stories after this incident because, as Lt. Col. Kelley told me, "PACOM and the Navy don't like him."

Despite a very promising military career, this young reporter decided to separate from the Army because of the treatment he had received from Stripes senior management and the command PAOs. To my knowledge, the misquote of the admiral was the only mistake he made as a Stripes reporter. It is certainly true that this error would have been handled different had there been no PAOs involved. At any comparable newspaper in the U.S. the matter probably would not have gone above the level of city editor (a middle manager).

Stonewalling? YES! Emphatically YES! This is another major difference between PS&S reporters and other external media. It has been a recurring problem during the five years I've worked here. I have a file, a very current file, replete with complaints from bureau chiefs and reporters about inordinate delay in responding to valid news queries from PAOs. Rather than provide you with lengthy examples, I think it would be far more enlightening if you spoke to the reporters themselves, both those now working for PS&S and those who have left the paper. It is hard to get them to stop talking once they begin relating their difficult experiences in trying to gather news from PAOs.

This newspaper is not nearly aggressive enough in defending its field reporters from petty complaining and stonewalling by PAOs. Senior management, in my view, is too interested in maintaining good relations with the local commanders and PAOs to protect the recognized interests of its readers to know the facts, fully and promptly. I do not think this attitude of subservience to the commands will end until a qualified civilian editor heads the newspaper. To expect a military officer to confront the command PAOs and demand proper treatment is unrealistic.

It is also enlightening to observe management's reaction to complaints about *Stripes* reporters from PAOs and complaints by reporters about PAOs, especially stonewalling PAOs. Complaints by PAOs receive prompt attention by the highest levels of management - reporters and bureau chiefs have been required to produce notebooks, tape recordings and to explain their every action in writing or in person and sometimes both. But complaints by the reporters about PAOs are treated considerably different. They are passed up the chain of command where they are either glibly explained away or not explained at all but simply noted. Reporters are expected to "understand" the problems PAOs have in dealing with the "cumbersome" military bureaucracy or to accept facile rationalizations for delays that are so obviously wrong as to be apparent to anyone. Only when PAOs are caught in the most awkward, compromising positions can reporters expect realistic action.

This newspaper's relationship with both PAOs and commands is unhealthy and forced. It is not the sort of relationship that any honest, independent U.S. newspaper would seek to have with any part of its reader constituency.

Question. Mr. Brackett: Are the Editors-in-Chief influenced by Commanders?

Mr. Brackett: Yes, commanders, beginning with the Pacific Commander and reaching down through his major commanders in the Pacific and Asia, are the most important influencing factor on the EICs. It would be very instructive to ask Colonel Richard Stevenson if he thinks commanders and their PAOs have influence over EICs. In my opinion, commanders and PAOs have sufficient clout to have any EIC removed who does not toe the editorial line they lay down. As long as an officer heads up PS&S and as long as PS&S remains under the operational control of the unified command it will remain that way. Anyone who argues differently either does not understand the military command system or is being deliberately misleading and evasive. It should also be noted that the unified command writes the performance report of the EIC and endorses the performance reports of other officers assigned to PS&S.

The GAO report clearly documents what happened to one officer who tried to run the newspaper honestly and without paying heed to command complaining. I was here when he was relieved and know the circumstances of that relief extremely well. It was undeserved and came about largely because Colonel Stevenson would not allow outright censorship and news management of the newspaper.

The EIC is expected to know what the commands want done with the newspaper and to give it to them as well as he can. In this sense he does not need to be told explicitly to censor or manage the news. Any good officer knows what is expected of him/her. It is therefore pious posturing to vehemently deny that any commander or PAO has explicitly ordered that a story be killed, changed or improperly positioned in the newspaper.

But again, as long as this newspaper has a military commander who answers to the unified command, then that commander will be influenced by the generals, admirals and their PAOs in the local commands. This is nothing but plain, common sense.

Question. Mr. Brackett: Do you believe that consolidation would help solve both financial problems and censorship problems?

Mr. Brackett: In my opinion, consolidation should have been effected at least three to five years ago. The major stumbling block, however, is that consolidation would remove control of the newspapers from the unified commands and probably place it directly under the American Forces Information Service. Under such an arrangement, control of the paper's content would be more difficult to manipulate, especially for the unified commands and the local command PAOs under them. This understood, the more heavy-handed censorship and news management probably would atrophy and disappear under consolidation.

Accountability for editorial operations would be sharply focused if the newspapers are consolidated under the AFIS aegis and this, too, would diminish enthusiasm for censorship and news management practices that presently take place under the guise of "command support" and "building better relations with the PAOs." The present organizational arrangement is very convenient in that accountability for say, the censorship and news management (just to take a basic issue for discussions sake and not raise related matters of mistreatment and abuse of employees, etc.) that has occurred over the past several years at PS&S, is diffuse and difficult to pin down. Does one blame AFIS? PACOM PAO? Or the EIC of PS&S?

The matter becomes murkier when one seeks the agency responsible for remedying the mess at PS&S. In reading the GAO report it is interesting to note how AFIS and PACOM PAO juggle the ball back and forth, dodging accountability here and there. Consolidation would fix that once and for all.

The basic solution to the censorship and news management problem is to eliminate military control over the editorial process by taking operational control of the newspapers from the unified commands. Both are imperative steps in the reform needed to restore the paper's credibility with their readership and to insure that they are printed for ALL military readers and not just the elite few.

Financially, there can be little doubt that the papers would be better off consolidated. Melding the two editorial staffs into one would result in large savings in military and civilian manpower. Editorially, all that would be needed in the Pacific would be two civilian and two military editors in Tokyo, plus a civilian and two military reporters in Japan, Korea, Okinawa and the Philippines. One civilian and one military reporter would be needed in Guam. These persons would be dedicated to local news and sports reporting.

Consolidation of advertising, art, photo, library/research staffs, books, magazines, production, personnel, logistics, contracting, computer maintenance, and military administrative functions would produce further savings. The argument that consolidation would not reduce the timeliness of the paper or might even cause more complaints of censorship are specious and self-serving. In a way, both arguments reveal how bankrupt the justification for opposing consolidation really are. Certainly the papers, if satellited, would be no later than they now are and in some places they would be earlier, depending on the system used.

Question. Mr. Brackett: Do you believe that the military public affairs field prepares people to manage a large newspaper?

Mr. Brackett: Absolutely not. It is probably the worst military career field from which to select persons to manage a large to medium sized newspaper. The public affairs career field is a soft support area which in no way can compare to the hurly burly of daily journalism. PAOs do not gain experience in daily journalism techniques and methods, they do not gain experience in the economics of publishing a daily newspaper, and they have practically no experience in managing and supervising reporters and editors on a daily basis.

Even PAOs who have degrees in journalism or business administration do not shine at managing PS&S, in my experience. Usually, these degrees were earned some time ago or they simply have the degree without any experience to back it up.

After a few years in the field, some PAOs develop negative attitudes toward journalists. Such attitudes make supervising daily news reporters difficult and frustrating for all involved. I have seen this hostility toward journalists in officers assigned to PS&S and in one case it was responsible for some very unsavory management behavior. The officer in question (Lt. Col. Kelley, then PS&S deputy commander) became so frustrated by his own inability to deal effectively with news editors in an editorial meeting that he bellowed hysterically at the top of his lungs, frightening Japanese employees in another part of the building. This was not uncommon with Kelley and I have witnessed similar behavior by other officers who were frustrated because they had no education and experience in daily newspaper work and were therefore inept in communicating with journalists who did. Also, this problem was compounded by the fact that these officers held journalists in a thinly disguised low esteem.

I must also point out that I served for ten years in the Air Force PAO career field as a junior and senior NCO. In that capacity I served with PAOs from the Air Force, Navy, Army and Marine Corps. I regret to say that too many of the PAOs and other officers I have seen assigned to PS&S in the past five years have not been, in my estimation, the best their branches of service have to offer.

Some have been barely third rate achievers who were frozen permanently in grade and for very good reason. In my personal opinion, some of these officers couldn't command respect with a sawed-off shotgun in a crowded room and others should not have been put in charge of themselves, never mind a daily newspaper. And that is not just my view, it is one that has been widely shared by the military and civilian journalists assigned here during the past five or six years. Certainly excellent officers have been assigned to PS&S, but in my experience this is more by accident than design.

I am told that AFIS has a chronic problem finding good officers to serve in Stripes billets, especially the more senior ones. I can well believe it. I think this is all the more reason they should have this burden lifted from their shoulders by having a civilian editor selected to head the newspaper.

Question. Mr. Brackett: Are civilians often placed under military personnel with limited or no journalism experience?

Mr. Brackett: Always. This is a chronic problem and under the present organization there is no solution to it, especially if military officers without proper training, education or experience in daily journalism insist on intruding themselves into the editorial process as some of them have. It is a major reason why this newspaper has lost some of its best talent over the years. Journalism is a very experience-oriented craft, and no one wants to work for a editor who doesn't know as much about the business as his subordinates.

The current editor in chief is a colonel, one who has had no journalism or related experience that would be recognized as such prior to coming here. But he is in fact the managing editor, news editor and local news editor all rolled into one because he has taken the final editorial decision making authority from these editors and vested it in himself. All news and related decisions in this organization flow up to his desk for approval and back down to be implemented. Senior editors are allowed to "recommend" on specific courses of action, but not to decide.

Whatever authority the EIC does not vest in himself is handed down to his deputy editor in chief, a Navy officer in the grade of Lt. Cmdr., who also had no daily journalism experience before coming to PS&S. If they are both gone, then the authority flows to the deputy commander, an Army Lt. Col. who works mainly on the business side of the newspaper and who had no daily newspaper experience before being assigned to PS&S. Oh, there is one day in which a civilian is allowed to be in charge. On SUNDAY, the managing editor is permitted to actually be the editor and make final decisions on what goes into the newspaper without getting military approval of any kind.

The limitations placed on editors at this newspaper are unheard of at comparable U.S. papers. For example, as local news editor, or "Pacific Editor", I am not allowed to decide where my personnel will be assigned, even though, putatively, I am the one editor who should know best their capabilities versus the requirements of the work to be performed. But in order to assign or transfer a person under me, I must go through a recommendation process that is both time consuming and torturous. And in the end, the decision may revolve around factors that have nothing to do with the needs of the local reporting staff. Or indeed, anything that anyone can figure out.

Equally, under the present "system", I am not allowed to decide when local reporting appears in the paper (a basic function of a local news editor), where it will appear, in what final shape it will appear or even if it will appear. Local reporting has been reduced to a function that has no authority and scant resources. The fewer resources we have, the less "trouble" we can create with our reporting. At least that is what one officer told me.

We have also had veteran journalists placed under military NCOs who had no daily newspaper experience. The position of deputy Pacific editor, for many years a civilian position calling for a senior editor, was abruptly changed to a military NCO billet so that we could give our senior NCOs some higher visibility in the newsroom. This shift has resulted in enormous problems but I have difficulty explaining it since none of the decision makers understand very well what I and my staff do.

PS&S desperately needs a civilian editor who can restore a semblence of organizational efficiency by decentralizing authority and allowing the newspaper's senior editors to do their basic jobs. Right now there are too many chiefs in the supervisory chain who don't have proper backgrounds in daily journalism.

Question. Mr. Brackett: You mentioned in your prepared statement that military personnel are badly mistreated. Would you please cite some examples?

Mr. Brackett: Certainly the egregious case of outright abuse and mistreatment of an enlisted man at PS&S is that of former Army Sgt. Chris Feola. In my 24 years of active duty as an NCO and officer I have never seen or heard of an EM being treated so badly by officers, especially senior officers who should know better. But this is not just my opinion. The former PS&S Sergeant Major, Army Sgt. Maj. Michael Mason, a Vietnam veteran and winner of the Silver Star, told me Feola's treatment by this organization and the unified command was the "worst abuse" of an enlisted man that he had witnessed in his career. He also told me that he had discussed Feola's case with the PS&S commander who declined to correct some of the abuses even though he had the authority to do so.

The December 1988, GAO report details the Feola mistreatment fairly well, but it does not note that the series he wrote on the Philippine insurgency was "promoted" prominently in several ads in the newspaper prior to its publication. Lt. Col. Kelley, and Lt. Cmdr. Griffin, were both present at the promotion meetings and briefed on the series contents. Thus, they both knew well in advance of publication what the series was to be about. The ads they approved used some of the series more colorful language.

Perhaps the greatest irony in this episode is that Feola did the research for this series with books he obtained from the Clark Air Base and Subic Bay Naval Base libraries in the Philippines. He also made extensive use of a highly praised book on Philippine history that he purchased from a PS&S bookstore.

After the first part of the series was published, a general officer at Clark AB called to complain to Lt. Col. Kelley who was then the acting commander because Col. Stevenson was out of town. Kelley took the complaint, read the series to refresh himself on it and then made the decision to continue publishing the remainder of the series. This decision was very out of character for Kelley because he almost always sided with the PAO or commanders in complaints about editorial.

Despite all the complaining about this series by PAOs and commanders, the effect it had in our readership areas was neglible, if that. In the Philippines the news bureau received many calls asking for the sources on which the series was based (we eventually ran a bibliography with the last installment). But, interestingly, the bureau did not receive any negative calls from readers. To my knowledge, only two letters were sent on the subject. One from a Navy housewife at Subic Bay NB who strongly criticized the series and the other from a Filipino businessman who praised it. I'm reliably told that a University of Maryland professor copied the series for use in his Asian history class and that the University of the Philippines in Manila did the same. Reportedly, one left-wing newspaper in Manila ran excerpts from the series (this is not uncommon in the Philippines and elsewhere in Asia).

Again, and in my opinion, the larger context against which this episode was played out concerned the desire to have Col. Stevenson fired. The issue was inflated out of proportion to achieve that end. The proof is in the pudding: the sky did not fall on

U.S.-Philippines relations as a result of this series. But it certainly did fall on the careers of Richard Stevenson and Chris Feola.

The case of Air Force Staff Sergeant Craig Martin is equally appalling. Martin was a young NCO who headed the PS&S Guam news bureau for three years. During that time he was demeaned, humiliated and mistreated by the PAOs at Andersen AFB where his bureau was located. Martin was a courteous and easy-going young man who worked hard to report activities on Guam.

In 1984, Martin and two other PS&S reporters were on hand at Andersen AFB to report on the arrival of President Reagan. The President was enroute to China for his first visit there and stopped at Guam to refuel and rest. While trying to get on an official press reviewing stand, Martin was rudely snatched up by his shirt collar by an Andersen AFB PAO and verbally threatened. This simple assault on an enlisted man by an officer took place in front of the Guam news media already assembled on the stand and the two PS&S editorial staffers with Martin. The PAO had had problems with Martin in the past and their relationship was not good (though this was not Martin's fault, in my judgment).

I reported this matter to the senior management at PS&S, strongly protesting this treatment of one of our reporters. I pointed out the fact that officers are not permitted to assault enlisted men under any circumstances short of self-defense. I presented two written statements from the PS&S editorial staffers who witnessed the incident. Nothing was done to the officer. As far as I know PS&S made no effort to demand disciplinary action against the officer. Let me assure you that had the circumstances been reversed there would have been a court-martial. This is a clear cut case of abuse and mistreatment.

Another example concerns Marine Corps Sergeant Hartman Slate, a former member of our Okinawa news bureau. Slate was summarily relieved as Okinawa correspondent because he conducted an interview with two U.S. military dependents who worked as bar hostesses in Japanese bars on Okinawa. The thrust of the interview, and subsequent story which he wrote, refuted remarks made by the Inspector General's office about the Okinawa bar hostess controversy. The GAO report details this controversy and supports the accuracy of the interview the women gave to Slate. It should be noted that the news bureau did not seek this interview. The women contacted the bureau, after reading the IG remarks, to protest what they felt were inaccuracies.

Slate wanted to remain as a correspondent at the Okinawa bureau and was assured by the PS&S deputy commander that he could do so. Less than two days after receiving this assurance, Slate was informed that he had been transferred to the local Marine PAO shop on Okinawa and was no longer a member of PS&S. Mr. Jim Lea, the Okinawa bureau chief, was given details on this matter and can corroborate the above. In my opinion and that of Mr. Lea, Slate was fired for honest reporting. The official reason for his transfer was financial savings. The deputy commander told me personally this was nothing but a pretext to rid the bureaus of reporters so that they "couldn't get us into trouble." Slate's case is a clear example of a military reporter being abused because of honest reporting that irritated the commands. It is my understanding that Slate, an outstanding NCO who served with distinction in Beirut, has decided to leave the Marine Corps.

Please also note as an example the abusive mistreatment of the Army reporter who misquoted the admiral (previously cited). I could cite other examples of mistreatment of military reporters but would prefer not to do so since some of these reporters are still serving on active duty and could be retaliated against. I will be glad to confidentially provide the Subcommittee with their names and addresses and urge it to contact them for details on their experiences.

Question. Mr. Brackett: Does news management or censorship occur in military broadcast news?

Mr. Brackett: I am reliably informed that it does. Persons whom I know to be reliable sources who have either worked for military broadcast outlets or who have close contacts in these outlets, tell me that censorship and news management has been routine in the past. They state that station managers often are instructed not to air certain news items considered negative, sensational or sensitive to host countries. The source of these decisions is thought to be the senior PAO in the country who has cognizance over the AFRTS outlets in his area.

I'm also told by another source that news broadcasts containing negative or sensitive stories are sometimes reviewed prior to airing by military and embassy PAOs and the broadcast that is considered least offensive is aired. Apparently whether the content best conveys the news to listeners and viewers is not a consideration. This procedure is outright news management.

Some of the censorship at AFRTS outlets is even sillier than that under taken at PS&S. For instance, I'm reliably told that AFRTS outlets in South Korea are now prohibited from using the term "Team Spirit" in conjunction with Exercise Team Spirit 89 now underway in Korea. The PAOs want to low key the exercise so they have issued orders not to use the name of the exercise. This sounds like something out of Alice in Wonderland but I'm assured it's true.

In my judgment there is no valid reason to censor or manage the news and information broadcast on AFRTS outlets. The notion that radio and TV broadcasts spill over into civilian areas is just a prop to justify these unamerican practices. I have no doubt that some broadcasts can be picked up by the local communities, but our senior representatives should not automatically kowtow to local government requests for censorship as a result of that. We should tell these people that if they want us there as an ally then this is part of the price they have to pay. I firmly believe that the governments of Japan, Korea and the Philippines would drop any censorship or news management demands if we took a firm position on it. But the PAOs and the State Department do not want to take a firm stance on this subject because then their right to tamper with the news would be taken away.

What they have tried to do is extend to PS&S the same right of censorship and news management they have with AFRTS outlets. In this regard please note that senior PAOs in Japan and some Navy PAOs have strongly urged that PS&S be forced to operate under a sensitive political subjects list similar to the one used by AFRTS outlets. This list is nothing more than a formal device for imposing censorship at the whim of a senior PAO or commander. It is odious to an American who wants to be informed honestly about the world around him.

Question. Mr. Brackett: Are stories killed before they are assigned?

Mr. Brackett: Generally speaking, they are not. However, PS&S is not allowed to do so-called "project reporting" (what in actuality amounts to the dreaded "investigative" reporting) without the explicit permission of the PAO advisory board. In the past, this board has denied PS&S permission to report on subjects as innocuous as retiree rights in Asia, labor problems at the Philippine bases and the condition of military housing in Asia. Attempts to get reporting projects approved by the board was so unsatisfactory that I think the whole procedure has been quietly dropped by editorial.

We have also had problems with restraints placed on coverage of ongoing negative events such as courts-martial. Senior management often objects to continuous coverage of courts-martials, for example, even though there may be valid news interest in the community about the trial. Whether a court martial or any other "running story" should receive intense coverage is properly a decision for the local bureau chief, the Pacific Editor and the news editor. It would not, at a normal newspaper, even be a matter for discussion with the managing editor.

Senior editors often have to justify to senior management why a story, usually one that is negative or "sensitive" about a local command or a "host country", was written. The news value of the story normally would be perfectly obvious to any journalist, yet editors have, in the past, undergone browbeating because their reporters and bureau chiefs were doing their jobs properly. Similarly, stories have been killed outright because of flimsy excuses such as "This is old news that no one cares about" or "We've had this story before" or "This is not news to our readers." Trying to protest against such evasions was very difficult in the past, but lately editors are finding their voices and objecting to such excuses with some success. Still the whole process of having to fight to get stories in the paper or to cover event properly is both debilitating and intimidatory. Honest editorial dissent and objection is not much appreciated at PS&S.

Question. Mr. Brackett: In your view, did the GAO report represent the true scope of censorship at the Stars and Stripes?

Mr. Brackett: No. The report was misleading in that it seemed to suggest that the examples of censorship and news management that appeared in the report were the only ones that took place during the period covered. That is certainly not true as practically any editor and bureau chief who was here then can tell you. And they will tell you if you ask them. To my certain knowledge, there was never any organized or other collective editorial staff attempt to document every instance of censorship. Part of the reason for that may be that most editors felt, as I certainly did, that nothing would be done about the problem by the IG, CPO, the unified command or AFIS. These agencies were, and are, bankrupt as a complaint mechanism on censorship and news management.

I do know that two news editors, one military and one civilian, maintained extensive files on the censorship and news management decisions which involved them personally in order to protect themselves in the event of a formal investigation. One of them told me that he was absolutely certain that what was being done by senior management was illegal and unconstitutional, but he felt he had to obey the orders given him. Both editors have since left the newspaper and I do not believe they discussed their experiences with the GAO. Nor did they "share" their personal files with other editorial staffers or with me. In the main, this has been such a frustrating and embarrassing situation that most editors probably prefer not to hear about instances not involving them if they can avoid it. That has been my attitude.

Question. Mr. Brackett: Since the GAO report on censorship was issued, has the situation improved?

Mr. Brackett: No, in my judgment it has not. There has been no change in editorial policy, procedure or practice. I do not expect any changes because the practices outlined in the GAO report are obviously exactly what the unified command and AFIS want done at this newspaper. They have implicitly condoned these practices by defending them and refusing to understand why they are wrong and illegal. Nothing has changed and it is not going to unless and until Congress acts to initiate meaningful reform. If Congress does not take action then the practices documented in the GAO will become institutionalized. I believe when that happens a new kind of darkness will permanently envelop this newspaper.

Question. Mr. Brackett: In your view, do readers believe what they read in Stars and Stripes?

Mr. Brackett: No, I think the newspaper's credibility is at rock bottom among the readership and that a long struggle is ahead in restoring it. Credibility is a newspaper's hard currency, once it is lost it is not easily regained. Military people are a lot smarter than some of the officers over them realize. They also can be very unforgiving when their leadership betrays them or acts in a dishonest way with their basic rights.

The newspaper will continue to be read for its excellent sports section and its comics. But I think many readers will approach the news sections with skepticism and quite frankly I think that skepticism is well advised. I would suggest that any reader of PS&S who seeks to be informed on the days events supplement his reading with TV news (even though AFRTS outlets are also censored) and weekly news magazines. I would not depend solely on PS&S for news and I doubt if many of them do.

PS&S also shoots itself in the foot with its readership when it prints long wordy articles by generals and admirals. Publication of these articles, so-called "Pacific Perspectives", erodes reader confidence and unwittingly reinforces the notion that the paper is a willing tool of the brass.

One recent example was especially bad. In the Sunday, March 19 issue, an entire viewpoint page was given over to pure boilerplate "written" by the senior commander in the Pacific, Admiral Hardisty, and the senior commander in South Korea, General Menetrey. I am not suggesting that the newspaper not publish their views, simply that we do it right. Instead of sending letters to these generals - and all other senior commanders in the Pacific region - and telling them that they can have as much space in PS&S as they desire to speak their views (we even told them the editing on the articles they submit will be minimal), we should have sent a reporter round to get an interview.

Readers who see the boilerplate will react negatively to all that gray space and then wince when they see the general's or admiral's byline. Hard experience proves that senior officers don't usually write very interesting copy. But it is a different matter if a reporter is conducting an interview. People will read the story just to see what he asked the brass.

Also, readers might very well ask themselves why, if PS&S is truly "their" paper, everyone doesn't have an opportunity to express himself on a subject dear to his heart or one that angers him. There is truth in this sentiment. If a general or admiral can do this then colonels, senior NCOs, junior officers and even, heaven forbid, lower grade enlisted men should be allowed to. And not just by writing a letter to the editor.

Question. Mr. Brackett: Are bureau reporters that cover base activities pressured by local commanders?

Mr. Brackett: Yes, but not directly and not at all bases. Some commanders are very bright in dealing with the press and others are not. The pressure is applied to bureau reporters and bureau chiefs by commander's PAOs through complaints to the PS&S senior management.

Recently on Okiuawa, a Marine PAO staffer wrote to PS&S senior management complaining about the "unmilitary" appearance of our Okinawa correspondent. The correspondent, a female senior NCO, was overweight because she had just had a baby. She was at the time working hard to drop the weight she had gained during pregnancy. These facts were known to the Marine PAO staff. The letter sent to PS&S was little more than simple harassment of a Stripes reporter. There was speculation that the writer of the letter, a senior PAO NCO, was angry with the Okinawa correspondent because she had covered the court-martial of a friend of his.

This incident caused great concern to the Okinawa correspondent, a sensitive woman who takes her military career very seriously. I tried to intervene with senior management but was not allowed to read the letter criticizing her even though she works under my supervision. This is just one recent example of the way some PAOs treat PS&S reporters. I could give you many other similar examples and some that are much worse.

PS&S is not active in defending its reporters. It simply isn't. I doubt if this attitude will change in the near future. Our reporters try very hard to work out a modus vivendi with the PAOs that will allow them to gather the news and avoid the barbs and stings that come from PAO complaints if they do their jobs too well. But the bottom line is this: if a local command PAO does not like the reporting of a particular reporter then he can make that reporter's life hell and there is precious little that PS&S can or will do about it. That is one of the working facts of life for PS&S reporters (and senior editors).

Question. Mr. Brackett: What are some of the more subtle types of censorship that you have seen?

Mr. Brackett: Killing stories through the use of journalistic buzz words such as "sensationalism" and "balance." Often whether something is sensational or not is left to the discretion of senior management and dissent to the contrary has little effect. Sensational as defined by senior management is often not what is commonly accepted in journalism.

Balance is used in much the same manner. Sometimes we have had stories "held to death" trying to achieve a balance of views that would never be required at any other American newspaper. Balance can have various meanings depending on what point senior management is trying to achieve. It can be strict balance between views expressed in a story, or it can simply be inclusion of a no comment statement from a PAO.

Several senior editors have recently complained bitterly to me about the problems they had trying to provide meaningful coverage of last falls' national elections. One senior editor told me it was the worst national election coverage he had ever seen. Another senior editor agreed with that assessment. These comments were volunteered to me, I did not seek them out nor did I ask the editors to elaborate. Part of the problems they had centered round the recurring issue of balance. Apparently some kind of pure balance between coverage of the candidates was being ordered by senior management. The editors explained that they couldn't achieve that because political campaigns take unusual twists and turns, they are unpredictable. Still, their work was made very difficult because of unrealistic expectations. Another editor told me the national election campaign coverage was "lousy, truly lousy."

Another subtle form of censorship and newsmanagement is to intimidate editors about the reporting of certain staffers who are out of favor with senior management. This is a form of low level browbeating and bullying by senior management that is as frustrating to deal with as it is childish. In the end, editors begin to groan inwardly anytime they have to present a story by the out of favor staffer. This bullying leads to what is unquestionably the worse kind of censorship, self censorship. Rather than argue with the front office, the editor simply edits out the passages he considers offensive and avoids a confrontation that always takes place on an uneven playing field.

Question. Mr. Brackett: Please describe whether the editor-in-chief, by nature of his position of commander can influence the performance of reporters under his control?

Mr. Brackett: For military journalists, the most obvious way is by example in the treatment of reporters who displease him. The stories of Chris Feola, Roy Wood, Harty Slate, and others hang around the halls of Stripes for ever. Military enlisted people know they are very vulnerable and the resultant chill effect that such stories have is considerable. The commander also has an option of placing negative remarks in performance reports, disapproving requests for extension of duty at Stripes, and disapproving assignments to major stories or to news bureaus. Some of these tactics have been used in the past against reporters who fell out of favor by reporting a bit too honestly.

For civilians, the commander can use many of the same techniques in a punitive way. In my opinion that has been done. I have witnessed efforts made by senior management to give civilian journalists "blanket ratings" of "satisfactory" on their performance evaluations. Other journalists have had duty titles stripped, been denied assignments and given letters of counseling. In my opinion, some civilian reporters have been deliberately mistreated in order to drive them from Stripes.

Question. Mr. Brackett: The subcommittee has received reports of retaliation against reporters. Has there been any retaliation against reporters who cooperated with the GAO?

Mr. Brackett: In my opinion there definitely has been retaliation in at least two cases that I am aware of. The first case involves Mr. Bill Bartman of our Pentagon bureau and the second is that of Mr. Charles Schill, our former Japan buro chief. I strongly suggest the subcommittee contact both these persons for full details on the personnel actions taken against them. I will be glad to provide any additional details you may desire.

Mr. HUTTO. The subcommittee stands adjourned until 9:30 tomorrow morning when we will meet in room 2337.

[Whereupon, at 12:55 p.m., the subcommittee was adjourned, to reconvene the following day, Thursday, February 23, 1988, in room 2337, at a time previously specified.]

ARMY GUARD AND RESERVE READINESS

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Thursday, February 23, 1989.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 2337, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee), presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. Good morning. The Subcommittee on Readiness will please come to order.

Today, the subcommittee will receive testimony from witnesses concerning the readiness of the Army National Guard and Reserve. Since these components are critical elements of the Army's "Total Force" concept their readiness, or lack of it, directly reflects the current state of how this concept is working.

The "total force" policy was developed with the creation of the All Volunteer Force, and under this policy reservists, rather than draftees, became the initial and primary source of personnel to augment the active forces in military emergencies. Under this concept, the reserves are to be equal partners on and off the battlefield, and must be as ready as their active counterparts.

The impact of this policy is reflected in the fact that the Guard and Reserves provide almost 50 percent of the Army's personnel strength. They comprise 36 percent of the Army's combat divisions and 57 percent of its armored cavalry regiments. These increased missions have also meant increased funding, with reserve component budgets rising to $20 billion in 1988 from $8 billion in 1980.

Recent studies, however, have questioned whether the "Total Force" concept is viable, and, in fact, may be "Mission Impossible" for part-time soldiers. Several General Accounting Office studies have found the readiness of the Guard and Reserve to be inadequate, and called into question their capability to be effective components within the "Total Force" concept.

This is a timely hearing because a number of proposals are surfacing that would push more missions into the reserve components. Several Members of Congress and the Department are studying the feasibility of deactivating Army divisions and giving the missions to the Guard and Reserves. It seems to me that these studies are assuming that the reserve components are presently capable of performing their current missions. I think today's testimony will show that the reserve components now have major problems in performing their assigned missions, and we should go slowly before assigning additional tasks to them.

I would like now to ask Mr. Hefley for his statement, on behalf of Mr. Kasich, who could not be here with us at this time.

Mr. Hefley.

STATEMENT OF HON. JOHN KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER (AS READ BY REPRESENTATIVE JOEL HEFLEY, A REPRESENTATIVE FROM COLORADO)

Mr. **Hefley**. Thank you, Mr. Chairman. Mr. Kasich is tied up in a budget hearing, so, if I might, I would like to submit his statement for the record.

I would like to thank Chairman Hutto for the opportunity to address the important issue of Army National Guard and Reserve readiness and the role these forces will play in the Army's Total Force concept. I would also like to welcome Mr. Davis and the rest of the GAO panel, and Mr. Green and Mr. Duncan from the Department of Defense.

Mr. Chairman, the Department of Defense will be faced with severe budgetary constraints over the next several years. I have heard estimates by the chairmen of both the House and Senate Armed Services Committees that the fiscal year 1990 through fiscal year 1994 5-Year Defense Plan may be as much as $400 billion underfunded. Given what has already happened to the defense budget since fiscal year 1986, I believe predictions of further cuts are only being realistic. Inevitably, there will be proposals to save funds by moving portions of the Army's active component into the Guard and Reserve.

The question that faces us today is whether such a strategy is the right way to go, or whether the Guard and Reserve have already been burdened with so many missions that readiness is negatively affected. The GAO's recent studies on this issue have already questioned Army Guard and Reserve readiness and the capability of these units to be effective components of the total force.

The GAO's opinion is shared by the CINCs. I recall that in a 1987 hearing of the Defense Policy Panel, General Crist, CINCCENT, and Admiral Hayes, CINCPAC, both stated very forcefully that one of their biggest war-fighting headaches was the lack of combat support and combat service support from the Guard and Reserve components.

These problems are coming to our attention at the same time the budget ax is falling. The Department of Defense needs to issue better guidance on whether it is even feasible to continue to maintain 18 active Army divisions in the current budgetary climate if our reserve component is unable to sustain them.

Mr. Chairman, I hope our witnesses today will be able to give us a better understanding of these problems, and more important, can suggest a course of action to this subcommittee. The budgetary situation means that trade-offs are going to have to be made. Our job is to make these trade-offs responsibly.

Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Hefley.

We are pleased to have with us from the General Accounting Office today Mr. Richard A. Davis, the Director of Army Issues, accompanied by Mr. Robert J. Lane, Assistant Director, Army Issues; Mr. Charles Bonanno, Assistant Director, Army Issues; and Mr. David Warren, Assistant Director, Manpower and Logistics Issues.

Welcome. Mr. Davis, you may proceed as you see fit.

STATEMENT OF RICHARD A. DAVIS, DIRECTOR, ARMY ISSUES, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY ROBERT J. LANE, ASSISTANT DIRECTOR, ARMY ISSUES; CHARLES BONANNO, ASSISTANT DIRECTOR, ARMY ISSUES; DAVID WARREN, ASSISTANT DIRECTOR, MANPOWER AND LOGISTICS

Mr. DAVIS. Thank you, Mr. Chairman. Mr. Chairman, I have a prepared statement I would like to have entered into the record, and, if you would, I would just like to summarize that.

Mr. HUTTO. Without objection, your complete statement will be entered into the record, and we would appreciate your summarizing. Also I might say that we will continue in open session for a period of time, maybe 20, 30 minutes or so, and then we will probably go into closed session.

Mr. DAVIS. Thank you. In coming years the Department of Defense will be faced with budget constraints. One of the alternatives that it will likely consider is reducing the size of the active forces. If the active forces are reduced, however, the question arises as to who will perform the mission previously performed by the active forces? Should the roles and missions of the reserve forces be increased to offset reductions in the active forces?

Since 1980, in an attempt to hold down defense costs, the Department of Defense (DOD) has steadily increased the size of its reserves and the number of missions assigned to them. Between 1980 and 1988 the reserves increased by about 289,000 persons. As of fiscal year 1988, the reserves represented about 35 percent of the total force. This growth in reserve forces is likely to continue because they are less costly to maintain than active forces. Although it may be cost effective to increase the roles and missions of the reserves, a balance must be maintained between the costs-benefits and military effectiveness. The focus of my testimony will be on the difficulties that DOD faces concerning reserve components. A full understanding of these issues will allow leaders to make informed decisions regarding whether to increase the roles and missions of the Reserves.

In the early 1970s, with the end of the draft and the beginning of the All Volunteer Force, DOD adopted the "total force" policy. This policy provides that reservists, rather than draftees, will be the initial and primary source of personnel to augment the active forces, particularly the early deploying forces, in a military emergency. According to the Reserve Forces Policy Board, reserve components of the armed forces are to be equal partners to their active force counterparts in peacetime as well as wartime, and must be as ready as their active force counterparts.

Over the past several years the quality, training and equipment of the reserves have improved significantly, and reserves are in better shape today than ever before. For the most part, these improvements have focused on combat forces. To some extent, these improvements have come at the expense of the support forces, particularly the Army support forces such as chemical and signal units in the combat support area and medical and ordnance units in the combat service support area.

In addition to the significant numbers of personnel and missions assigned to reserve components, many of these units have deployment dates that would rival those of the active components. Thus, it is imperative that the reserve forces be properly trained and equipped in order to meet their mission responsibilities.

How the total force is divided between the active and the reserve components and which missions the reserves will perform are of critical importance to overall defense capability. Our prior work has shown a need for more definitive guidance in determining what roles and missions should be assigned to reserve components under the "total force" policy. Similar concerns have been voiced by the Office of the Secretary of Defense and congressional committees.

DOD recognizes the need for specific guidance to the services on what factors should be considered in the force mix and mission assignment decision process. Guidance has not been provided because of difficulties in developing a methodology for making these decisions. Each of the services has established its own procedures and criteria for determining the appropriate mix of active and reserve forces and mission assignments, and often the reasons and rationale for their decisions are not documented.

At a minimum, force mix and mission assignment decisions should be based on the following factors: the cost and capability of reserve components to perform their particular mission and meet deployment dates; the impact of a particular force mix or mission decision on training requirements, including the type, length and availability of training; and the impact of such decisions on recruiting requirements.

The Reserve Forces Policy Board's most recent annual report stated that the lack of trained personnel was a significant factor in limiting reserve readiness in fiscal year 1987. This assessment was confirmed in our August 1988 report to the Chairman of the Senate Armed Services Committee, entitled "Military Capability: Readiness and Sustainability of U.S. Forces for a Conventional Conflict." The report pointed out that the lack of skilled personnel was the major factor degrading the readiness of the reserve forces. For example, of all the Army reserve component forces that would be called upon to respond in the event of a European conflict, about 42 percent reported that they required additional resources or training to perform their assigned missions or that they were unable to perform their missions. The lack of skilled personnel was the primary reason for their reported degraded readiness condition.

In assessing the need for better reserve training it is important to recognize that the Reserves are a part-time force limited by the number of training days as well as the amount of time that reservists can take away from their civilian occupations. Reserve units are generally authorized only 38 days a year and National Guard units 39 days a year to accomplish training. A recent Army study, however, showed that the average unit spends about 50 percent of its available training days on administrative matters.

Certain skill areas require long training periods in order to obtain a high level of proficiency, and time just may not be available for reservists to obtain these skills. Unit training management also needs to be improved. Improvements here would help to compensate for the lack of time for training. In DOD's 1987 Annual Statement of Assurance on Internal Controls the Army identified the individual and unit training of National Guard personnel as a material weakness. For example, individual training programs had not been established for those personnel not qualified in their duty positions, skill qualification test results were not being used to identify weaknesses in individual or unit training, and mission essential training was not always scheduled. As a result, there was no assurance that soldiers received training in all the required tasks.

Recruiting problems are also factors that contributed to the lack of skilled personnel. To illustrate, the reserves rely to a great extent on their ability to recruit persons with prior military service to meet their personnel needs. While these individuals are already trained, their former military skills often do not match the skills needed by the units they join. Consequently, they must be retrained.

In fiscal year 1987, about one-half of the Army's National Guard and the Marine Corps Reserves enlistments were prior service personnel. According to the services, about one-half of those personnel required retraining in order to give them the needed skills.

Another factor that affects the reserves' ability to attract needed personnel is the numbers required in the declining pool of persons in the 18-to-24-year age group. According to recent studies, this pool of resources is expected to decline until after 1996. Thus, to the extent that the reserves increase their personnel requirements, the current problem will be compounded.

Because of the important role the reserve component units play in the Total Force Concept and the war-fighting commanders' heavy reliance on these units to accomplish their wartime objectives, it is critical that these units be able to deploy when required. Many of the combat, combat support, and combat service support units in the Army National Guard and Reserves have deployment dates that require them to be in their assigned theaters of operations within 60 days after the initiation of hostilities. However, many of these same units report a readiness status or condition that calls into question their ability to meet these commitments. To illustrate, 77 percent of the Army reserve component units scheduled to be in the European Theater within the first 60 days reported (1) they required additional resources or training in order to do their tasks or (2) they were unable to perform their assigned missions.

Readiness deficiencies in reserve components could severely limit the ability and flexibility of the war-fighting commanders to fulfill their mission objectives. In fact, the war-fighting commanders may be faced with a choice of delaying deployment until deficiencies are corrected or accepting units that may not be able to fully perform their assigned missions.

There are other factors that transcend the reserves affecting U.S. forces as a whole. There continue to be sizable disparities between requirements and the resources available to meet them. For example, airlift and sealift capabilities are significantly below stated requirements, and forces may not be able to deploy when needed. There are also serious shortages of sustainability items, particularly highly technical sophisticated munitions such as air-to-air and air-to-ground missiles in the Air Force and Navy and surface-to-air munitions in the Army. Certain U.S. forces may exhaust their medical, petroleum, oil, and lubricant supplies before the first major battle is concluded. Commanders of the major war-fighting commands have consistently expressed concerns about their ability to sustain their forces because of the airlift and sealift problems and the significant shortages of critically needed sustainability items.

In conclusion, the reserves account for a large and very important part of the military services' total forces. While a major advantage of the reserves is that they are relatively inexpensive to maintain, a major disadvantage is their lack of readiness.

Mr. Chairman, that concludes my statement. We would be happy to answer any questions you may have.

Mr. HUTTO. OK. Thank you, Mr. Davis.

Prepared Statement of Richard A. Davis

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the role of the reserve forces in the Total Force Concept and their ability to carry out assigned missions.

In the coming years, the Department of Defense (DOD) will be faced with budget constraints. One of the alternatives that it will likely consider is reducing the size of the active forces. If the active forces are reduced, however, who will perform the missions previously performed by the active forces? Should the roles and missions of the reserve forces be increased to offset reductions in the active forces?

Since 1980, in an attempt to hold down defense costs, DOD has steadily increased the size of its reserves and the number of missions assigned to them. Between 1980 and 1988, the reserves increased by about 289,000 persons. As of fiscal year 1988, the reserves represented about 35 percent of the total force.

This growth in the reserve forces is likely to continue because they are less costly to maintain than active forces. Although it may be cost-effective to increase the roles and missions of the reserves, a balance must be maintained between the cost benefits and military effectiveness.

The focus of my testimony will be on the difficulties that DOD faces concerning the reserve components. A full understanding of these issues will allow leaders to make informed decisions regarding whether to increase the roles and missions of the reserves. More specifically, I would like to discuss

-- the intent of DOD's Total Force Policy,

-- the need to ensure that DOD develops criteria for determining the impact that expanded responsibilities for the reserves will have on military capability and resource requirements,

-- the need to improve reserve training to ensure that the proper numbers of qualified personnel are recruited and trained, and

-- the ability of the reserves to deploy to their intended areas of operations within the time frames prescribed in the operations plans.

Finally, I will conclude by discussing those factors that transcend the reserves and could impede the ability of all forces, active as well as reserves, to successfully carry out their assigned missions.

TOTAL FORCE POLICY

In the early 1970s, with the end of the draft and the beginning of the All Volunteer Force, DOD adopted the "Total Force Policy." This policy provides that reservists, rather than draftees, will be the initial and primary source of personnel to augment the active forces--particularly the early deploying forces--in a military emergency. According to the Reserve Forces Policy Board, reserve components of the armed forces are to be equal partners to their active force counterparts in peacetime as well as wartime and must be as ready as their active force counterparts.

Over the past several years, the quality, training, and equipping of the reserves have improved significantly, and the reserves are in better shape today than ever before. For the most part, these improvements have focused on combat forces. To some extent, these improvements have come at the expense of the support forces, particularly Army support forces such as chemical and signal units in the combat support area and medical and ordnance units in the combat service-support area.

The integral part that the reserves play in the Total Force Policy is illustrated by the fact that reserve forces account for significant percentages of all the services' forces:

-- About 50 percent of the Army's personnel strength are reserve forces. In terms of units, the reserves represent about 63 percent of the combat units, 80 percent of the combat support units, and 81 percent of the combat service-support units that would deploy to Europe in the event of a conflict.

-- Reservists represent about 20 percent of the Navy's personnel, contributing 16 percent of the Navy's frigate personnel, 35 percent of the maritime air patrol squadrons, and 65 percent of the mobile construction battalions.

-- About 24 percent of the Air Force's personnel are reserve forces. Thirty-three percent of its tactical fighter units, 60 percent of its tactical airlift units, and 45 percent of its air rescue and search elements are made up of reservists.

In addition to the significant numbers of personnel and missions assigned to the reserve components, many of these units have deployment dates that rival those of the active components. Thus, it is imperative that the reserve forces be properly trained and equipped in order to meet their mission responsibilities.

GUIDANCE FOR DETERMINING WHAT MISSIONS TO ASSIGN TO THE RESERVES

How the Total Force is divided between the active and reserve components and which missions the reserves will perform are of critical importance to overall defense capability. Our prior work has shown a need for more definitive guidance in determining what roles and missions should be assigned to the reserve components under the Total Force Policy. Similar concerns have been voiced by the Office of the Secretary of Defense and congressional committees.

DOD recognizes the need for specific guidance to the services on what factors should be considered in the force mix and mission assignment decision processes. Guidance has not been provided because of difficulties in developing a methodology for making these decisions. Each of the services has established its own procedures and criteria for determining the appropriate mix of active and reserve forces and mission assignments, and often, the reasons and rationale for their decisions are not documented.

In the force mix and mission assignment decision-making processes, an important factor that needs to be considered is the desirability of having a particular type of unit made up of only reservists or a particular mission solely or primarily performed by the reserves. For example, all of the Army's infantry scout units and 73 percent of its medical units are made up of reservists. Likewise, all of the Navy's light attack helicopter squadrons and search and rescue squadrons are made up of reservists.

Recent events in the Persian Gulf illustrate the impact of a service's having a large percentage of its particular operational capability in the reserves. Eighty-two percent of the Navy's ocean minesweeping capability is in the reserves. The lack of this capability in the active force hampered the ability of the Navy to respond to an emerging need in the Persian Gulf. The reserve ships had to be manned with active force sailors and reserve volunteers.

When a service decides to assign all or a large percentage of a particular mission to the reserves, it can limit the flexibility of commanders to respond rapidly to an emergency situation unless it also allows for a limited or general call-up of the reserves.

At a minimum, force mix and mission assignment decisions should be based on the following factors:

-- the cost and capability of the reserve components to perform the particular mission and meet deployment dates;

-- the impact of a particular force mix or mission decision on training requirements, including the type, length, and availability of training; and

-- the impact of such decisions on recruiting requirements.

RECRUITING AND TRAINING THE RESERVES

The Reserve Forces Policy Board's most recent annual report stated that the lack of trained personnel was a significant factor limiting reserve readiness in fiscal year 1987. This assessment was confirmed in our August 1988 report to the Chairman of the Senate Committee on Armed Services entitled Military Capability: Readiness and Sustainability of U.S. Forces for a Conventional Conflict, (GAO/C-NSIAD-88-22, Aug. 1988). The report pointed out that the lack of skilled personnel was the major factor degrading the readiness of the reserve forces.

For example, of all the Army reserve component forces that would be called upon to respond in the event of a European conflict, about 42 percent reported that they required additional resources or training to perform their assigned missions or that they were unable to perform their missions. The lack of skilled personnel was the primary reason for their reported degraded readiness condition.

In assessing the need for better reserve training, it is important to recognize that the reserves are a part-time force limited by the number of training days as well as the amount of time that reservists can take away from their civilian occupations. Reserve units are generally authorized only 38 days a year, and National Guard units 39 days a year to accomplish training. A recent Army study showed, however, that the average unit spends about 50 percent of its available training days on administrative matters.

Certain skill areas require long training periods in order to obtain a high level of proficiency, and time just may not be available for reservists to obtain these skills. This point was made by Navy officials who identified 89 enlisted positions that require 16 to 320 days of training to acquire the necessary skills. Because of these requirements, the Navy is having difficulty in filling these positions with qualified personnel. In our work on Army training issues, we identified 67 Army skill positions that require at least 4 months of training in order to obtain proficiency. These training requirements make it difficult for the Army reserve components to fill these positions with qualified personnel.

Unit training management also needs to be improved. Improvements here would help to compensate for the lack of time for training. In DOD's fiscal year 1987 Annual Statement of Assurance on internal controls, the Army identified the individual and unit training of National Guard personnel as a material weakness. For example, individual training programs had not been established for those personnel not qualified in their duty positions; skill qualification test results were not being used to identify weaknesses in individual or unit training; and mission-essential training was not always scheduled. As a result, there was no assurance that soldiers received training in all the required tasks.

A further indication of the lack of skill proficiency is the rate at which reservists successfully pass skill qualification tests. In fiscal year 1987, only about 32 of the reservists in the Army National Guard and Reserves required to take a skill qualification test actually took the test. Of these 156,000 reservists, about 65 percent passed the test. In contrast, of the 450,000 active duty soldiers who took the test during the same period, 92 percent passed.

Our prior work has also indicated that the lack of skilled personnel in the reserves may be even worse than acknowledged by the reserve components. Army data indicates that about 73 percent of its Army National Guard and Reserve personnel are qualified. However, this percentage only relates to the number of personnel who have been assigned the military occupational specialties of the positions they occupy. Also, even this 75 percent are not necessarily fully qualified to perform all the critical tasks of the positions to which they are assigned. In fact, our work has shown that, while the Army may classify an individual as qualified, individuals in many specialties might have received training in only 28 to 57 percent of the critical tasks required to perform their jobs.

Recruiting problems are also factors that contribute to the lack of skilled personnel. To illustrate, the reserves rely to a great extent on their ability to recruit persons with prior military service to meet their personnel needs. While these individuals are already trained, their former military skills often do not match the skill needs of the units they join. Consequently, they must be retrained. In fiscal year 1987, about one-half of the

Army National Guard's and the Marine Corps' Reserve enlistments were prior service personnel. According to the services, about one-half of these personnel required retraining in order to give them the needed skills.

Additionally, geographic constraints impact on the reserves' ability to attract personnel with the skills needed. DOD directives provide that a unit may only recruit from that pool of individuals living within 100 miles of the unit's location. Persons with the needed skills are not always available in the locale. Also, reservists who relocate may not be able to find units in need of their particular skills.

Still another factor that affects the reserves' ability to attract needed personnel in the numbers required is the declining pool of persons in the 18- to 24-year age group. According to recent studies, this pool of resources is expected to decline until after 1996. Thus, to the extent that the reserves increase their personnel requirements, the current problem will be compounded.

THE ABILITY OF RESERVE FORCES TO MEET DEPLOYMENT SCHEDULES

Because of the important role that reserve component units play in the Total Force Concept and the warfighting commanders' heavy reliance on these units to accomplish their wartime objectives, it is critical that these units be able to deploy when required.

Many of the combat, combat support, and combat service-support units in the Army National Guard and Reserves have deployment dates that require them to be in their assigned theaters of operations within 60 days after the initiation of hostilities. However, many of these same units report a readiness status or condition that calls into question their ability to meet these commitments. To illustrate, 77 percent of the Army reserve component units scheduled to be in the European theater within the first 60 days reported that (1) they required additional resources or training in order to do their tasks or (2) they were unable to perform their assigned missions.

Readiness deficiencies in reserve components could severely limit the ability and flexibility of the warfighting commanders to fulfill their mission objectives. In fact, the warfighting commanders may be faced with a choice of (1) delaying deployment until deficiencies are corrected or (2) accepting units that may not be able to fully perform their assigned missions.

OTHER FACTORS AFFECTING THE TOTAL FORCE

There are other factors that transcend the reserves, affecting U.S. forces as a whole. There continue to be sizable disparities between requirements and the resources available to meet them. For example, airlift and sealift capabilities are significantly below stated requirements, and forces may not be able to deploy when needed.

There are also serious shortages of sustainability items, particularly highly technical, sophisticated munitions, such as air-to-air and air-to-ground missiles in the Air Force and Navy and surface-to-air munitions in the Army. Certain U.S. forces may exhaust their medical and petroleum, oil, and lubricant supplies before the first major battle is concluded.

Commanders of the major warfighting commands have consistently expressed concerns about their ability to sustain their forces because of the airlift and sealift problems and the significant shortages of critically needed sustainability items.

- - - -

In conclusion, the reserves account for a large and very important part of the services' Total Forces. While a major advantage of the reserves is that they are relatively inexpensive to maintain, a major disadvantage is their lack of readiness.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions.

Mr. HUTTO. You said that 50 percent of the time of the Reserves or the Guard—which is it—or both, is spent on administrative-type things?

Mr. DAVIS. I think that figure relates to both the Guard and Reserves.

Mr. HUTTO. OK. What kind of administrative things are you talking about?

Mr. DAVIS. It ranges from updating personnel records to filling out a whole range of reports for a higher headquarters. In fact, I would like to quote to you a statement from a commander of one of these units. Earlier this summer we visited a number of units and asked them to provide some data for us prior to our visits. Regarding administrative matters, the comments of one commander were kind of indicative of the things that we found in other units. The commander said, and I quote:

> These reports do not take one or two people to complete. They require verification of numbers, names, and other pertinent data. It may involve the clerk, commander, operations officer, training officer, affected soldiers, platoon sergeants, and platoon leaders. These reports are only for the personnel side of the house. There are reports for logistics, maintenance and food service. All of these people are doing reports and the troops are waiting to be trained.

Mr. HUTTO. When you talk about reports, are you talking about reports that are not done by the active Army?

Mr. DAVIS. No. Many of the reports that are required of the reserves are likewise required of active units.

Mr. HUTTO. Now, what is the ratio, or what is the percentage of time by the active Army that is put on administrative matters? Does anybody know that?

Mr. BONANNO. We don't have the answer to that question, sir, but consider the fact that the active forces have approximately 200 to 240 training days versus the 38 or 39 days that are available to the Guard and Reserve. So there is, obviously, considerably more time in the active component to prepare all of these reports.

Mr. HUTTO. Would you say there was a significantly less percentage of time involved with administrative matters in the active?

Mr. DAVIS. That would be our guess.

Mr. HUTTO. OK. How much of the Guard and Reserve is computerized?

Mr. DAVIS. I am not sure we have that answer for you. We do know, however, that the Reserves and the Guard have been trying to implement an automated system for a number of years in order to automate some of the information needed for mobilization. Right now much of this information is done manually, stored in files, and so forth. The Guard and Reserves have a program right now called Reserve Component Automated System—I think they refer to it as RCAS—that is supposed to automate a lot of the information that is needed for mobilization issues.

The House Appropriations Committee has expressed some concern recently about how long it is taking the Army to implement this system. It was supposed to be on line sooner, and now they are estimating it is going to be into the 1990s, early 1990s before that system is fully implemented.

Mr. HUTTO. It seems to me it would be very important for the Guard and Reserves to have that ability.

One colonel expressed his view of the reserve component as, "For the most part they will never be as ready as the active force, and we should not expect them to be since they only train a fraction of time as active troops. We should continue to upgrade them and make them as good as they can be within their finite limits. Because if we ever need them, they are better than draftees with no training."

How do you view this? What is your opinion?

Mr. DAVIS. Well, I think as we said in our statement, Mr. Chairman, that the reserves today are probably better than they have ever been. DOD spent a lot of money to reach that point, and I think they have shown some progress.

However, having said that we need to point out that there are a lot of other things that still need to be done, and I think you will hear this from defense officials later today. We believe that many of the things that need to be done can be accomplished by increased management attention and do not necessarily require additional resources.

For example, many of the Army combat support and combat service support units are assigned to early deploying missions and missions that require them to be in theater soon after hostilities would begin. But yet some of the priority attention and monies that have been allocated to reserves have been going primarily to the combat forces.

Also, I think there are some things in the training area that can be fixed. Many of the training courses in the Advanced Individual Training programs at the formalized schools are conducted on the modernized equipment that the Army has in its active force. When some reservists return to their units they see equipment that they hadn't seen before. For example, one of the units that we visited this summer was a Guard aviation unit that had OH-6 Scout helicopters, and I had an opportunity to talk to some of the mechanics at those units. While they were at AIT receiving some of their training, they were trained on some of the more advanced Army equipment. Some of the mechanics said they didn't really know how to deal with some of the problems that they were facing on the older OH-6 aircraft. In fact, in some cases they weren't really functioning as mechanics because they just didn't have the skills.

So some problems like that I think are solvable with increased attention and management focus. I think there are ways around some of those things.

Mr. HUTTO. OK. I have one other question.

Has the Army made a mistake in allocating a significant number of missions to the reserve component that require an early deployment date even when these same units are not properly trained or equipped?

Mr. DAVIS. I don't know if we could say it was a mistake. Again, I think it is important to realize and to keep in mind that, if those decisions are made, then a number of corresponding other decisions have to be made. There has to be some consistency, for example, of how you reallocate your resources. If you are going to assign priority missions or early deploying missions to reserve units, then you also must, it seems to me, make sure that you properly resource them. You make sure that they have the equipment that they need and you make sure that the people are properly trained in those units. Factors such as these have to be consistent with the decision to assign reserve units priority missions.

Mr. HUTTO. Thank you.

I would remind the members that we will be operating under the 5-minute rule and to keep your questioning as brief as possible because we do want to go into a closed briefing.

Mr. Lancaster.

Mr. LANCASTER. Mr. Chairman, I have a question about some confidential material that has been presented to us. Should that question be reserved until a later point in the hearing?

Mr. HUTTO. Yes.

Mr. LANCASTER. To what extent do you see the problems that you have outlined as being a question of a shortage of resources as opposed to management problems, and to what degree is it a function of both?

Mr. DAVIS. I think clearly resources always help. However, I think many of the problems that we have identified in the body of work and the series of jobs that we have done over the last couple of years indicate that there are also many problems out there that increased management attention can solve. Some of the ones that I just highlighted for the chairman I think are just examples.

I don't think necessarily that just pouring additional resources is going to solve the problem.

Mr. LANCASTER. Are we realistic when we expect Reserve and National Guard units to perform at the same level as active duty forces when, as you have indicated, active duty forces have an excess of 200 training days a year as opposed to 30 or less, and when you consider that half of the time spent on training duty is administrative? Are we really being realistic in expecting the same level of readiness in our Reserve and Guard units as we have with the active forces?

Mr. DAVIS. I think there is some reason to believe that the DOD needs to take a look at some of those issues. For example, some of the missions and tasks that they have given to the reserves are tasks that require lengthy training periods, and it is going to actually take years for reservists to be able to gain the skills necessary to perform those missions. So there are trade-offs involved there and questions of whether or not there is going to be sufficient time to train people in the reserves to accomplish those missions.

Also, there has been a lot of structural turbulence within the reserves mission changes which affect readiness. The reserves are beginning to get some of the same first line equipment that the active forces have; and every time, for example, in the Army that you might switch an M-60 tank for an M-1 that requires people to be retrained, and consideration has to be given to that. How many days would be required to do that?

In the Army, the Chief of Staff of the Army has recently asked his people to take a look from a conceptual and doctrinal standpoint at the viability of being able to deploy a 3-division force without use of the reserves. Right now the reserves are so interwoven into the active forces, he wants to see if something like that could be done, and if we could even deploy such a force.

I think there are steps being taken within the DOD right now to look at some of the ways these issues are being addressed.

Mr. LANCASTER. Have you identified specific areas that are inappropriate for a reserve mission because of the excessive training time required?

Mr. DAVIS. The Navy has identified about 89 different tasks which require from anywhere up to 320 days to train some people. They are looking at whether or not these are viable tasks to have in the reserves. We identified 60 tasks which showed that it would take as much as 4 months for the Army to train some of these people. So some of these tasks need to be looked at to see if they are needed and should be in the reserves.

Mr. LANCASTER. Is the Navy the only service that has made this examination?

Mr. DAVIS. No. The Army is also doing it right now. They know some of the skills and the tasks that require lengthy training times. In fact, the Army has a program right now to restructure some of their training programs to adapt them more to the reserves.

Mr. LANCASTER. Are all of the areas where readiness is at a low level in these high training areas, or are some of them in areas that would be appropriate for Reserve or Guard fulfillment?

Mr. DAVIS. Most of the low readiness ratings fall in support roles.

Mr. LANCASTER. But, I would think that the support roles would be roles that could be filled with less training than some of the more complicated combat areas?

Mr. DAVIS. Not necessarily, sir, because as the services deploy more sophisticated equipment some of the—for example, maintenance mechanics on Bradleys, M-1 tanks, and other sophisticated equipment are very complex, some of the aviation, helicopters and so forth, require extensive training periods.

Mr. LANCASTER. Are the services comparable in their level of readiness or, if you could, spell out the differences between the services in their level of readiness?

Mr. LANE. Yes. Without getting into classified information, we could generally say that the Air Force Reserves, Marine Corps, and the Navy Reserves report a much better readiness condition or status than does the Army. Within the Army, the combat support and combat service support type units are where the major readiness degradation occurs.

Mr. LANCASTER. Do you have an opinion as to why the Army is less ready than the other services?

Mr. LANE. I think, in part, the answer goes back to the philosophy of the Army over the recent years to emphasize readiness of the combat forces rather than the logistic support forces.

Mr. LANCASTER. The focus has been different in the other services?

Mr. LANE. It is difficult to draw an analysis because of the different ways the services are structured. For example, in the Air Force maintenance units report their status along with the combat squadrons; whereas, in the Army you have a distinct and different reporting structure. So it is difficult to draw any one-on-one comparisons.

Mr. LANCASTER. Thank you, Mr. Chairman.

Mr. Hutto. OK. Thank you, Mr. Lancaster.

Mr. Hefley.

Mr. Hefley. Thank you, Mr. Chairman.

Has the concept of the volunteer Army cut down on recruitments into the Reserves and the Guards? Any feeling for that?

Mr. Warren. We don't have any specific analysis, but our impression would be no. In other words, since 1980 the Guard and Reserves have increased by about 289,000 personnel. Statistics that I have seen generally indicate that they have been successful in meeting their recruiting objectives. However, trends toward the latter part of the 1980s do not look as good with the downturn in the group of available manpower, and indicate that there are problems starting to crop up. But we don't see a specific relationship.

Mr. Hefley. As the available manpower, 18 to 24, shrinks, has any thought been given to broadening the age limits?

Mr. Davis. I am not aware of any at this time—there may be, but I am not aware of any, sir.

Mr. Hefley. That might be something to give some consideration to. They play in the National Football League until they are 35, and sometimes almost 40 years old. So we might want to think about that.

Mr. Lancaster. Say nothing of riding broncos in rodeos.

Mr. Hefley. That is true, too. If they are crazy enough, Martin. [Laughter.]

Mr. Hefley. During World War II we drafted people, we put them through basic, we sent them to war, and they fought the war for us. How different is that than what we have with the reserves now? It seems to me that what the chairman mentioned about the colonel's statement is very true. At least we have some training here. Those people were put into war very, very quickly, and performed I think rather well. How different is that?

Mr. Davis. I think a good example is, to go back to one I used earlier, I think a lot has to do with the sophistication of the equipment that the forces are getting today. When I was at that Guard aviation unit this summer, I was talking to mechanics who had been trained on one piece of equipment and when they had to deal with a different helicopter, they felt lost. They didn't know what to do. They didn't know how to maintain it. So I think that is probably the situation in other areas, also.

Mr. Bonanno. I would like to add to that. Sir, history shows that, for example, during Korea when the reserves were called up it took, in many cases, up to a year for them to reach the required readiness level. Likewise, for Vietnam it took three times as long as expected to reach the required readiness level. I think today under the "total force" policy, we are talking about many, many Guard and Reserve units being assigned very early deployment missions. As Mr. Davis mentioned earlier, units are scheduled to be in theater within 60 days. Now that doesn't allow the time luxury that we had previously.

Mr. Hefley. The Colorado Air National Guard scores very well in contests with the regular forces. Of course, they were trained before and they are just keeping up their proficiency, I suppose, in their Guard service. But, in other areas, other than the Air National Guard and Reserve, do they have contests which match the reserve units against regular units to actually test how well they do?

Mr. **Davis**. I am not aware of any. There may be, but I don't know if they are or not.

Mr. **Hutto**. If the gentleman would yield on that point, I would like to ask, do you have any percentage figure on the Guard and Reserve that actually exercise with the active force?

Mr. **Davis**. I don't know if we have any figures on it, but we do know that it happens frequently.

Mr. **Hutto**. But you don't know if that is just a small portion of them or a large portion?

Mr. **Lane**. I don't have any specific figures, but as part of the Army's Capstone Program, the reserve components train with their active brothers. So, I think it is more than just an isolated case. It would be quite prevalent.

Mr. **Hutto**. Thank the gentleman for yielding.

Mr. **Hefley**. Thank you, Mr. Chairman. I think that is all I have.

Mr. **Hutto**. Mr. Martin.

Mr. **Martin**. Thank you, Mr. Chairman. I have a couple of questions that relate to the secret and confidential documents we have, and I will keep those for later.

But I note in your testimony, on the bottom of page 4 and carrying over to page 5, that some 82 percent of our minesweeping capability is in the reserves. You point out the lack of this capability in the active force hampered the ability of the Navy to respond to an emerging need in the Persian Gulf. The Reserve ships had to be manned with active force sailors and Reserve volunteers. Eighty-two percent of any of our forces in the Guard and Reserve is a very, very high percentage, especially when you consider the reluctance of the government to activate the Guard and Reserve given any crisis.

The third point under that, where you say that the ". . . force mix and mission assignment decisions should be based on the following factors," and the third one is "the impact of such decisions on recruiting requirements." Could you explain what you mean by that?

Mr. **Davis**. What we are talking about here is when DOD decides what their force mix should be, what forces should be in the active, what forces should be in the reserves, we think that one of the things you need to consider when you assign the mission is how much difficulty you might have in recruiting people.

For example, if you go back to the Army support issue again, the combat support and combat service support, if you assign them an early deploying mission, we believe that in doing that you need to consider whether or not you are going to be able to equip them, what costs you would incur, what impact it is going to have on your mission capability, your readiness, and will you have any difficulties recruiting people to fill those slots. By definition you have given them a very important mission now, because you have given them an early deploying mission.

So that is the context in which we cited those things. The point we are trying to bring home is that when you make decisions you need to consider all these things.

Mr. MARTIN. But, no way are you inferring that you might have difficulty recruiting for the Guard and Reserve in those units that would most probably be called up?

Mr. DAVIS. No.

Mr. MARTIN. Or the fact that if you did call up the Guard and Reserve, or the question of if you did call up the Guard and Reserve, whether or not that would immediately have a chilling effect on the recruiting for the Guard and Reserve?

Mr. DAVIS. No, that was not what we were trying to imply at all, sir.

Mr. BONANNO. I think one of the constraints that we are talking about, sir, is, for example, a DOD directive that says that a Guard or Reserve unit can only recruit within a 100-mile radius of its own location. So, obviously, as you get out into the more rural areas of the country, that becomes a sizable constraint in some cases.

Mr. MARTIN. Well, the other questions I have relative to combat support and combat service support are in the classified documents, so I will yield back at this time, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Martin.

Mr. Machtley.

Mr. MACHTLEY. Thank you, Mr. Chairman.

I am going to ask my question from the reference of my own personal experience. I had 15 years in the Reserve. In my last Reserve unit, I was the CO, so I had some personal hands-on experience.

My question is, is the problem here readiness or is the problem someone's determination as to what is readiness? Let me give you a couple of observations. In the Navy I had a high tech welder. I was the CO of a SIMA unit. Yet, we had to have this gentleman go to school. We couldn't get him into a school, therefore, he was not qualified. Yet, this guy could weld better than any regular active duty welder because he did this every day in his civilian job.

Another case, I was in an MIUW unit where we had a ship's captain who, in the civilian world, was a merchant marine ship's captain. We couldn't get him into a school because there were no billets available, active duty 2 weeks school; therefore, he wasn't totally readiness qualified. Yet, he knew more about shipping and how to get a ship into a port than anybody in the unit.

Would you comment on the fact that maybe the problem is one of criteria of readiness as opposed to whether the actual people are qualified?

Mr. DAVIS. It is probably some of both. Because, for example, if you go to the Army now, the situation is almost the opposite of the example that you gave, sir. By that I mean, in the Army when a soldier completes his Advanced Individual Training, and he is assigned a Military Occupational Specialty (MOS) he is now considered trained in terms of reporting. However, by design the Army doesn't expect all of their soldiers to be 100 percent proficient when they come out of formal training. In fact, for many of the skills less than 60 percent of the tasks are learned through formal training. The Army expects these soldiers to go to the units and to be trained by their NCOs. Training is to be given not only in the skills that weren't addressed during the formal training program; soldiers should also have an opportunity to hone those skills that they were taught in AIT.

So, in the case of the Army these people are being reported as trained when, in fact, there is good reason to believe, based on some of the tests that they have taken, that they don't have all the skills that they should have.

Mr. **Machtley**. The other issue is one of changing the criteria of readiness. That was a constant problem when I was a reservist. One moment we would have a person qualified and ready. The next year someone came out with a new program and therefore this person had to start all over again. So that we might draw the conclusion that we have a very unqualified group of reservists not ready when, in fact, they really were, but the criteria, because it was changed so often. Can you talk about that issue?

Mr. **Lane**. You are absolutely correct. That has been a problem. However, the Army in reporting readiness statistics for units where there has been a TO&E change or a change in mission does allow for substitutability so that the individual who is trained, proficient, and qualified, for example, in repairing certain type of equipment, can still report against the equipment that they have on hand. I am sure it occurs on occasion, but for the most part there are allowances for reporting based on the types of equipment that the unit has rather than what they will acquire later.

Mr. **Davis**. I would like to add that as part of the audit that we did this summer, sir, looking at the skill qualifications of the Guard and Reserves we not only looked at some of the reports, but we also talked to the first line supervisors and the commanders at these units. The prevailing opinion of both the supervisors and the COs was that the training rates that were being reported and the conditions being reported were pretty accurate and that many of the soldiers did not have the skills required to accomplish their mission.

Mr. **Machtley**. Well, that is precisely my point. Maybe the skills required to accomplish a mission, determined by someone who wasn't in the field, had set a standard which was too high to achieve, therefore, we couldn't achieve a readiness which met someone's criteria.

Mr. **Davis**. Well, that could be, but I think those are the same standards being applied to the active forces.

Mr. **Lane**. Also, sir, the commander can exercise command prerogative and upgrade or downgrade the overall readiness condition of his unit based on his knowledge of the individuals as opposed to what the statistics would show. So there is latitude which allows those commanders to adjust those reported readiness rates.

Mr. **Machtley**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Machtley.

We need to get into the closed briefing as soon as possible. I believe Mr. Hefley has a brief question.

Mr. **Hefley**. It is very brief. Excuse me, Mr. Chairman.

Mr. Machtley raised a point that I would like to have you explore just a moment. How much professional jealousy did you find in your look at this? From the standpoint of the regular Army or the regular service, say, "Oh they're just reservists," or "they're just guardsmen," and no matter what you did they might not be considered ready in the eyes of someone who has professional pride in his profession and these guys are bankers and lawyers and carpenters and work on the weekends so they couldn't possible be ready. Did you run into any of that?

Mr. **Davis**. I didn't get a sense for that from the people we talked to. I think they assumed that, they are a part of the total force. We have units in the Guard and Reserve, as you mentioned, some of the Air Force units that have the mission to defend the continental United States. Some of those units are highly qualified, skilled, and I don't think anybody challenges that. Just because they are in the reserves doesn't necessarily mean that they can't attain a first line degree of capability.

Mr. **Hefley**. It doesn't mean that. But there is sometimes that philosophy. The guys who graduate from the academies are called "ring knockers," and they look down on even the reserve officers many times who are making careers of it, or they look down on regular officers who have come out of the reserve status and are making careers of it but didn't go to the academies.

So is there a looking down on the part of the people who are professional as opposed to the reserve unit?

Mr. **Davis**. In our body of work, we haven't noticed that.

Have you?

Mr. **Lane**. No, that is exactly correct. When we were putting together the readiness and sustainability report, we visited with all the major war-fighting CINCs and either talked to the CINCs directly or to their deputies. While there was a consistent expression of concern about the ability of some of the reserve forces to be able to perform their assigned missions, I certainly never got the impression that they were looking down on those individuals. In fact, I sensed a real and genuine concern on their parts to try to do everything that they could to upgrade those particular units.

Mr. **Hefley**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you. Mr. Bilbray, do you have any questions for open session?

Mr. **Bilbray**. No, Mr. Chairman.

Mr. **Hutto**. OK. Thank you.

We will go into closed briefing at this time, and we will ask all those people who are not cleared to please leave the room.

[Whereupon, at 10:27 a.m., the subcommittee was recessed, to reconvene in closed session.]

[The following questions were submitted to be answered for the record:]

GENERAL ACCOUNTING OFFICE RESPONSE TO QUESTIONS FEBRUARY 23, 1989 HEARING ON ARMY GUARD AND RESERVE READINESS

Q&A

Q. What is your gut feeling about the total force concept in relation to the Army; should it be downscaled to a more realistic level given the finite amount of time the reserve component has to train?

A. The Total Force Policy has been instrumental in enhancing the affordability of the nation's defenses. Indeed, it has brought the various service components closer together and fostered enhanced training and readiness on the part of reserve components. At the same time, we do question the wisdom of not fully considering inherent differences between active and reserve components in the important readiness areas of manning, equipping, and training. We believe those differences warrant greater consideration in force programming and deployment planning.

Q. You identified 67 skill positions that require at least 4 months of training in order to obtain proficiency. How does the Army justify putting these types of positions into the reserves? Has the Army reviewed all of its skills and identified those that require extensive training?

A. The 67 military occupation specialties requiring 4 or more months training are not specialties unique to the Reserve Components. Given the mission and relative size of the Army's Reserve Components (slightly larger than the active forces), and the fact that these specialties exist in many different type units, it would be extremely difficult, and not very practical, for the Army to eliminate them from the Reserve force structure. For example, the medical specialist (91A) is assigned to Infantry, Armor, and Artillery units as well as medical companies and hospitals.

Concerning the second part of your question, yes, the Army currently is attempting to develop reserve configured training packages for many of these specialties which would eliminate or reduce the requirement for extensive active duty training.

Q. The turmoil in the reserves that you describe is incredible:

- -- one half of the prior service personnel require retraining;
- -- personnel classified as qualified may not have received training on 50% or more of the tasks required to do their job.

Please summarize for us the problems that cause this turmoil, what the Army is doing about it, and give us your opinion as to whether it is solvable.

A. The fact that as many as 50 percent of the prior service personnel who enter the Army National Guard and Army Reserve each year require some degree of retraining to become duty position qualified is a reflection of the reserve environment. Reserve units must depend on the availability of personnel within their geographic area even if they do not possess the required military specialty. Thus, an active duty soldier, with an infantry specialty, who joins a reserve unit near his home after his discharge, may have to retrain if there are no infantry units available. The same situation occurs when a reservist is transferred to a new location because of his civilian job. The alternative is not to accept people with the wrong specialty. This approach would probably result in a reduction in the number of previously trained individuals in the force, and might have adverse impacts such as lowered unit strengths.

The Army currently has under consideration a number of recommendations for improving reserve training practices from a year-long study by the Army Training Board. One such recommendation suggests that training should be focused on selected critical mission tasks at the company and battalion organizational levels. A fundamental change that is being considered calls for reserve units to be trained in fewer mission-essential tasks than their active Army counterparts. While this would not eliminate the problems noted above, it could help to minimize the adverse affects.

We believe the situation can be improved significantly through improved training management. This would include such things as better management oversight of the development and execution of individual training plans, and ensuring that training opportunities are made available to reservists needing training.

Q. Your November 1988 report talks about the policy guidance that OSD has developed for a number of key reserve issues, like mobilization, the one-day screening policy and equipment distribution. Your report also mentions problems with implementation of these policies, especially equipment distribution. Is it your feeling after dealing with the OSD and service officials that the policies are good but the implementation needs to be improved, or do you believe the policies need work?

A. While we did have concerns with the need for policies to be developed in the key areas of force mix and mission assignments and full time support programs, most of the specific problems we identified were with the need for better compliance with existing guidance. Training is a good example of an area where constant problems have been found relating to developing and implementing effective unit training plans. So, overall, we feel there was need for improvement on both ends, but effective implementation is the greater of the two concerns.

Q. GAO published a report in 1979 called "Total Force Management--Fact or Rhetoric?" which was not very complimentary. Here we are ten years later and we have thrown a lot of money at the problem. Have we gotten our money's worth, and how would you assess any measurable improvements?

A. We have seen improvements in the reserve components. These forces are more capable today than they have ever been. However, the missions they are assigned today are more challenging than those of the past. So, while improvements have been made, the more demanding missions lead to questions about the level of capability that can be expected from a part-time force. This is a particularly important question for those reserve units having missions requiring that they deploy in the early days of a conflict.

Q. Your report highlighted some problems with equipment distribution, and you did not agree with DOD's response to your report. Please explain the problem as you see it and what you believe DOD should do to correct it.

A. The problem with equipment distribution in the Army's Reserve Components is simply that equipment is not always distributed to units in their relative deployment sequence. This does not refer to those instances where there are Department of the Army (DA) directed deviations such as the minimum essential equipment for training programs, or the decision to equip all units to the C-3 level, but to non DA directed instances where equipment is provided to a late deploying unit instead of the earlier deploying unit that needs the same equipment. The intent is probably to increase the number of units that can be reported as C-3. However, in the event of a mobilization, this condition could cause delays because of the need to redistribute equipment to the early deploying unit. We have recommended that the Army examine its equipment distribution and redistribution policies to ensure that they clearly state how unit deployment priorities should be considered in the equipment distribution process.

Q. The Mmilitary skill qualification problem is multi-faceted and varies by service. Please explain the major components of the Army's problems and your assessment of what they are doing to resolve them. What recommendations did the Army not agree with and why?

A. The military skill qualification problems in the Army Guard and Reserve are in large part a function of the reserve environment. The key factors are that training time is limited and reservists' individual skills often do not match the skill requirements of units located near the reservists' residences. However, other factors impacting the Army include unit management of training programs for individuals, the pace of equipment modernization programs, and frequent force structure changes. For example, in the training area there are many instances where reservists had not made any progress in individual training programs for excessive periods of time.

We recommended that the Army develop programs to expedite the retraining of prior service personnel through such practices as establishing and enforcing time limits for completion of requalification and scheduling required retraining prior to enlisting these personnel in units. DOD partially concurred with this recommendation. They agreed that time limits for requalification may be desirable, but not until courses have been reconfigured to match the limited training time available. They also stated that scheduling training prior to enlistment would not be necessary if a requalification time limit was established.

Q. Why does the Army Guard have separate financial accounting management systems? Shouldn't the Guard and Reserve accounting, supply and other logistics systems be compatible with the active component under a total force concept?

A. DOD's goal is to increase the integration of management information systems to improve mission performance. A major part of this effort is to reduce the number of operating accounting systems and establish a single financial management system for each service. The Army National Guard's separate financial accounting management systems grew up over time in much the same way as financial systems proliferated in other elements of DOD. However, the Army's progress has been slow in developing an integrated system which serves the needs of its active and reserve components. According to DOD, the Army National Guard plans to use standard Army financial systems when they are brought into compliance with GAO standards in 1992. Obviously, the use of standard accounting and management systems is an important aspect of the Total Force and is reflected in the Army's goal to develop systems which meet the needs of its active and reserve components.

Q. Why do the Army and Navy use different systems to pay reservists? Is this a holdover from the active component?

A. The Army and the Navy in the past used different systems to pay reservists for inactive and active duty training time because of the dissimilar nature of pay entitlements. We have taken the position for some time that the Army and Navy should establish a single pay system for its reservists. Our experience has shown that similarly designed systems are more efficient and reduce the likelihood of system errors. While agreeing with our position, both services have been slow to meet this objective. The Army is currently in the process of adapting the Air Force Reserve pay system. The Navy is moving to establish a master pay record for each reservist. However, it will continue to have separate systems for inactive/active duty pay for reservists.

Q. You found problems with the Army's automated mobilization system. Please explain what they are and how the Army plans to resolve them.

A. The Army's Automated Mobilization System problems stem from the lack of automation capabilities for Army National Guard and Reserve units. This hinders their ready access to and integration with standard Army planning and logistic systems that support mobilization. A 1987 Army assessment showed that command and control over the mobilization process is limited by reliance on predominantly manual or batch oriented systems that provide information which is often not timely, sometimes inaccurate and in most cases inaccessible.

The Army has been working since 1979 to automate mobilization and other reserve component management information. This effort has had a number of program changes and little success. At congressional direction the program (the Reserve Component Automation System) was placed under the direction of the Chief of the National Guard Bureau, in 1988. According to DOD the system will be operational by July 1991.

Q. I think one of the more important aspects of your November report was left for last in your report--that of improving Active/Reserve integration. Please elaborate on this topic, what you see as the possibilities and the Department's reaction to your suggestions.

A. Achieving adequate representation for the reserve components in DOD management structure has been a long-standing concern to DOD and the Congress. It is important that the reserve component perspective be considered in decisions which affect such issues as manning, training and equipping of those forces. In 1986, the Assistant Secretary of Defense for Reserve Affairs stated that contingency plans in both hemispheres could not be effectively executed without committing reservists in the same time frame as active forces. Active/reserve component integration is an important aspect of total force implementation.

Overall we saw a good mix of Active and Reserve members at the various headquarters levels, but not at operational commands. Our observations were that Total Force integration might be improved by having a larger number of reservists assigned at the various operational commands. For example, the Chief of the National Guard Bureau suggested increasing the National Guard representation at Forces Command and at the headquarters of the Continental Armies.

We did not offer the DOD any specific suggestions on how to go about improving integration, but expressed the view that it warranted DOD attention. In responding to our report, DOD said its new full time support policy would encourage career broadening assignments for reservists in active and reserve components. Overall, they also felt National Guard and Reserve full time representation at service operational levels should be increased, but noted that increasing Reserve Officer billets would require congressional approval.

Q. On page 26 of your August report you stated that 75,000 support personnel will be needed to support the already-deployed combat forces. Can you tell us what time period we are talking about, the first 30 days or 60 days and is there any way to correlate these needed units with the charts showing what units are ready or not ready?

A. Without going into classified information, we cannot comment on the specific time frames involved. However, in answer to the second part of the question, while it is not possible to draw a direct correlation between these troops and the units shown in the charts, it is safe to say that the troops in question are among the unit types that are experiencing readiness degradation.

Q. Your testimony indicates serious deficiencies in the readiness of the reserve components. Do you see this situation improving in the near future?

A. I must preface my answer by saying that improvements have been made in reserve force capabilities in recent years; they are better today than ever before. The services are working these problems but they are not quickly solvable because of the type problems that are involved. I pointed out in my statement that lack of skilled personnel was a primary reason for the degraded readiness. This is not a problem that can be fixed in the short term or fixed merely by providing more training programs. The task of matching needed skills to available personnel is not a short term endeavor. Likewise, the types of skills that require long term training programs in order to acquire the needed proficiency can not be attained quickly. Also, organizational turbulence confronting over 40 percent of Army reserve components due to planned unit activations, conversions, and reorganizations between now and fiscal year 1991, will further exacerbate these problems.

Q. You stated that the Army awards a military occupational specialty to a soldier even though he may not have been trained in all critical job tasks. How does the Army ensure that reserve soldiers eventually are fully trained?

A. Initial training in tasks not covered in Advanced Individual Training (AIT) is conducted at the unit level by first-line supervisors, normally noncommissioned officers (NCO). They directly supervise the soldiers and lead the crews, squads, or teams. They also are responsible for providing periodic refresher training in the critical job tasks and survival skills taught during AIT.

Q. According to your testimony, a recent Army study found that about half of reserve units' available training days are used to satisfy administrative requirements. Can you provide examples of these requirements? What can be done to resolve this?

A. Let me preface my answer by reinforcing that the finding of 50 percent of reserve time being spent on administrative requirements comes from an Army study, not a GAO review. The Army's Reserve Component Training Strategy Task Force noted in its brief to the Army Chief of Staff, in August 1988, that unit commanders are so overloaded with administrative requirements that training readiness is significantly affected. Additionally, the Army's own Inspector General reported in July 1988 that the administrative requirements imposed on reserve units, coupled with required response dates, had forced changes to training plans and thereby detracted from training.

Our own findings, based on discussions with officials at units we visited, estimated that an average of about 25 percent of all available training time, is used to satisfy administrative requirements, but the burden can consume up to 70 percent of available time. While one might argue over the percentages, there is no mistaking the message that comes through loud and clear from all sources, and that is that the burden of administrative requirements imposed on reserve units has been such that it further constricts an already constrained training schedule and makes it difficult to ensure that required training is accomplished.
The Reserve Component Training Strategy Task Force has recommended a complete review of administrative requirements for reserve components. Its proposed goal is to achieve a 50 percent reduction in administrative requirements at unit level by 1990.

Other data shows that two State National Guard organizations have been able to deal more effectively with and lessen the impact of the administrative burden. Guard organizations in Maryland and Utah, have consolidated administrative requirements such as x-rays, immunizations, and updating personnel records into one weekend each year. Officials in these states told us that their programs have increased the time available for training.

Total Force Policy

Question: The GAO has recommended that DoD develop force mix and mission assignment policy. The GAO noted that DoD has recognized the need for such guidance since 1984. In responding to GAO's recommendation, DoD stated that it agrees with GAO's recommendation, but such a policy could not be developed until May 1990. Since the need for this guidance has been well recognized, could you explain why it is taking so long to develop this guidance? Is it a matter of it being low priority? What is the current status of your efforts to develop the guidance?

Mr. Green: I cannot speak to OSD action prior to my appointment last year. During the last year I, with my colleagues in Reserve Affairs, Health Affairs, Program Analysis and Evaluation as well as other OSD offices, undertook a review of how the Services and the Joint Staff made force mix decisions. As the result of that review, a working group was established to update Total Force Policy. We now have a draft document which will clarify policy, standardize definitions, and support the development of uniform and consistent evaluation criteria. This proposed policy is in the review and comment stage.

Question: The GAO recommends that the policy should address such factors as reserve component cost, capability, personnel training and equipment requirements. Please discuss what you see as the critical elements the policy should address and why they are important.

Mr. Green: The critical elements of policy include:

oo clear articulation of national defense strategy and objectives

oo translation of national defense strategy and objectives into nonmobilized and mobilized military capabilities that we must plan to meet within fiscal guidance

oo the use of required mobilized and nonmobilized force capabilities and fiscal limitations to guide force structure requirements

oo clear articulation of all the elements of Total Force, which includes civilian, contractor and host nation support as well as active and reserve military personnel

oo the use of standardized policies, evaluation criteria, definitions and common planning assumptions in allocating manpower against total force requirements

oo clear articulation of responsibilities and interactions among OSD offices, the Joint Staff and the Services required to implement policy

oo evaluation criteria would include but not be limited to:

- oo forward deployment
- oo sea duty
- oo training and tempo requirements necessary for proficiency
- oo rotation base requirements
- oo peacetime workload
- oo deployment schedules (the ability to mobilize in a timely fashion
- oo cost (comparative cost given required readiness and peacetime work load requirements).

Question: The GAO's testimony indicates that certain missions, particularly those requiring highly technical skills, may not be well suited to the reserve components. In your view, are some missions better suited to the reserve components than others? If so, what are they and why are they better suited? Do you believe it is prudent to assign 100 percent of a mission or capability to the reserves?

Mr. Green: From the total force policy perspective, the key questions concerning the suitability of assignment of a mission to the reserves is capability requirements for successful execution of the mission. If the mission is forward deployed or requires very high peacetime tempo or readiness status, or if the mission requires intensive training and practice for proficiency, it is appropriate for assignment to active forces. In those cases, a part time force cannot meet the capability requirements on a cost effective basis. The requirement for highly technical skills must be considered in context. No one would argue that delivery of medical care requires high technical skill levels. However, we do not have to rely on active duty experience to obtain these skill levels. Reserve units may be a superior way of ensuring the skill levels we need in this case.

The question concerning the prudence of assigning 100 percent of specific capabilities to reserve units is under review as part of the total force policy review. It is directly connected to the question of what nonmobilized contingencies should the Department be prepared for. Based on this review it is probable that the Department will reconsider its active/reserve split for selected functions. However, I believe that these will be changes on the margin, not dramatic shifts.

Question: In March 1988 the Assistant Secretary of Defense for Force Management and Personnel testified that his office was taking steps to examine the Services' force mix criteria and decision-making process in its "total force initiative." That review was to include an extensive look (over the last eight years) at how decisions were made. What are the findings of this study?

Mr. Green: The findings of the review indicated that all components understood and implemented general policy guiding total force mix. However, each had its own process. Priorities and evaluation criteria varied among components. This review led to the development of a new draft total force policy to clarify policy, definitions, evaluation criteria, and responsibilities.

Question: Overseas training has been cited almost unanimously as a valuable tool for the Reserve components. The continuing reports by Army Audit on Operation Blazing Trails in Central America paint pretty bleak pictures of Guard/Reserve components. Do you feel these exercises are indicative of the overall readiness of our Reserve components.

Mr. Duncan: The exercises enhance readiness, and build on the strengths of units. The training in Central America is unparalleled for realism. These exercises can best be performed in developing countries near the United States because the exercises are economical from a transportation standpoint, and there are no competing interests from the public or private sectors.

The exercises strengthen readiness significantly because they require the units to plan and conduct mobilization and deployment, train at a realistic location, and redeploy. Short of war, there is no better training for these combat engineer units.

The audits are conducted to assist the planners and operators in correcting those procedures which can be improved and, as the audit recommendations are followed, the exercises become more effective.

Reserve Component Capabilities and Resource Management

Question: GAO's testimony raises some serious questions about Reserve component individual skill levels and Reserve component capabilities in general. It also raises questions about the adequacy and management of resources. In your view, as the offices charged for oversight of reserve matters, how well are component resources being managed? Finally, what is your assessment of reserve component capabilities to perform their mission?

Mr. Duncan: Overall, I would say that component resources are being managed reasonably well. It is DoD policy that manpower and equipment be provided to units based on the deployment or employment priority of the unit. Resourcing efforts have also focused on early deploying units required to augment forward deployed active forces, particularly Reserve component units serving in the combat support and combat service support role. Reserve resource decisions are subjected to continuous evaluation as part of the DoD Planning, Programming, and Budgeting System. This management process is reasonably effective, and we are actively working to develop more clearly defined policies, procedures and responsibilities for Total Force decisions. Increases in the availability of resources and modernization of the Reserve components since 1980 have resulted in dramatic improvement in the capability of Reserve component forces. In general, the Reserve components are capable of performing the missions that have been assigned. The substantial improvement in the capability of Reserve forces has not, however, eliminated all readiness problems. There are some areas, notably combat support and combat service support where shortages of resources severely limit the

ability of some units to perform their mission. This is an area where we have recently focused attention and we expect alleviation of these problems when units receive the increased resources which have been programmed for in the five year budget plan.

Reserve Component Readiness

Question: Again, referencing Secretary Weinberger's 1982 memo to the Service Chiefs, he said that "The Guard and Reserve Forces must be prepared and be maintained in a state of readiness for immediate use should the need arise." Have we achieved that requirement? Why not? Is it a feasible goal?

Mr. Duncan: No, we have not fully achieved total readiness of all Reserve component units. Therefore, not all Reserve units will be immediately available, should the need arise. However, over the past 8 years, we have dramatically improved the readiness of Reserve component units, across the board. This improvement has been the result of providing needed resources, manpower, equipment, and training opportunities, to those units. Obviously, there have been budgetary and distribution limitations on these resources. Since the distribution of new equipment to Reserve component forces coincided with equipment modernization programs, we have also had to restructure and retrain units to work with new weapons systems. Our prioritization in equipping, manning, and training the Reserve forces has been the "First to fight" policy which states that units which are needed first will have priority claim on resources. This policy, coupled with our efforts to assure units have at least minimum essential equipment, has worked, as evidenced by the greatly improved readiness posture of the Reserve components. We still have a way to go, but we are programming this improvement, within budgetary realities, to achieve fully ready Reserve forces.

Question: I understand that individual Reserve units must develop training plans and reports covering the results of training completed. What system checks do you have in place to assure that planned training is actually completed given the limited training time available to Reservists--one can imagine that a lot of weekend drill time gets eaten up by a host of administrative matters. What checks have you made into this area and what have you found?

Mr. Duncan: The Military Services have in place many headquarters in the peacetime chain of command which evaluate weekend training. My office monitors Service training evaluation data. We scrutinize GAO reports and IG inspection results. In addition, my office meets regularly with Service trainers. We explore every opportunity to visit Reserve component units during weekend drills and annual training all over the world.

My office also coordinates on all DoD directives and publications that impact on the Reserve components. We are directly involved in the creation of the Defense Guidance and in the Planning, Programming and Budget review of the Services' POMs. We are aware of and participate in many of the current studies conducted by the Services, such as the recent study on Reserve component Training Strategy conducted by the Army.

On a semiannual basis, my office reviews the Services' unit readiness posture, to include training resources, of each National Guard and Reserve unit based on data already gathered by the Military Services.

In areas where there is a lack of information, my office initiates studies with research firms like RAND and Institute for Defense Analyses (IDA); for example, we orchestrated the Logistics Management Institute (LMI) study on the need for a training strategy for technical training of Reservists.

We have found the percentage of time spent on administrative requirements differs widely among the Services. The Services are aware of the problem and are taking action to minimize those requirements and maximize training time.

Question: We understand that Army Reserve units spend 50 percent of available training time to satisfy various administrative requirements. What are the comparable percentages for the other services? What can be done to reduce this workload? If the Army could reduce reserve unit administrative requirements by one-half, would that be sufficient training days available for most reserve component units to achieve required proficiency?

Mr. Duncan: The percentage of time spent on administrative requirements differs widely for various units based primarily on type unit and the command to which the unit is assigned. Although the Army has not attempted to determine a specific percentage of time spent on administrative requirements, several reviews of the Reserve component training environment have determined that it is higher than desirable and that administrative requirements do impact on training.

According to the Army, reduction of administrative requirements by one-half may be beneficial to some units but remain unsatisfactory for others. A more practical approach is to establish objectives for the amounts of available training time which may be dedicated to mission training. The Army has established the objective of reducing administrative requirements so that no more than 20 percent of a unit's available training time is used for administration. The objective recognizes that there is some administration which is necessary to warfighting readiness. The remaining 80 percent of the training year will be available for mission essential training. Several significant administrative reductions have already been implemented. The effort is comprehensive in that it addresses not only administrative reductions but efficiencies which may be gained through automation and the prevention of future unnecessary requirements from creeping back into the system.

Reserve Component Readiness

Question: GAO has reported that the equipment distribution policies aren't necessarily equipping the "First to Fight". What do you do to ensure this policy is being followed?

Mr. Duncan: I fully support the "first to fight" policy. We must provide resources to our military units based on the order in which they will be called into service. The initial implementation of this policy focused on equipping early deploying combat units. This restrictive approach overlooked the allocation of other necessary resources, such as personnel and training opportunities, and was not applied consistently to support force units which would be employed concurrently with combat units. Therefore, within the department, we are taking steps to broaden the "first to fight" policy to encompass resources other than equipment and to include support force units as well. Such clarification will result in greater uniformity in the interpretation of this policy by the Services and will conform to the intent of the original policy concept.

Question: Employer pressure is a very real problem for the Reserve Component, yet the total force concept seems to encourage and almost demand additional training. Should we lessen the pressure by reducing this "quest to be equal" and accept lower training readiness levels by the Reserve Components?

Mr. Duncan: Our own longer Training Study was completed in 1986 and influences our policy decisions on the amount of time we ask our Reservists to train. We recognize the demands and minimize longer training to key exercises and overseas training performed by a limited number of units. Yet, our Reserve components are more ready in peacetime than ever before.

Increasing training requirements, with limited time availability, are constraints inherent in the Reserve environment that grow with the technological sophistication of the modern equipment being provided to the Reserve components. With the transference of equipment comes transference of wartime mission requirements. The wartime mission capabilities expected of the Reserve component by the Services are not the same as those expected of the Active components. Therefore, Guard and Reserve units focus premobilization training on a fewer number of tasks than Active units, but the units train in those tasks to the same standards as their Active counterparts. Thus constrained peacetime training meets expected wartime requirements.

If the training task standards were lowered, the Reserve components would have an easier time meeting their requirements but their peacetime capability would fall short of wartime needs. In addition, the meaningful, even if demanding, peacetime training tasks provide Reservists with pride in their capability and unit. Lessening the pressure to train could very well lower the quality of recruit attracted to the Reserve component. We prefer to improve training to be able to meet wartime requirements rather than lower task standards.

We assist the Services in seeking out training technologies that will allow the Reserves to make best use of the training time that is currently available. As a result, the Reserve units receive high grades in demanding exercises like National Training Center, Red Flag and REFORGER, overseas training, and competitions involving teams from the Active and Reserve.

One of the best ways we have found of increasing training time is through expansion of training opportunities for individuals rather than for units. This technique is less disruptive for families and employers and can be keyed to individual availability. We can also provide flexibility and resources for additional unit training.

Total Force Policy

Question: In your view, should more new and/or expanded mission responsibilities be assigned to the reserve components? If so, what types of missions should they be?

Mr. Green: At the moment my efforts and the efforts of my staff are concentrated on achieving a consensus within the Department on total force policy principles, standardized definitions, assignment of total force responsibilities, the further elaboration of uniform and consistent evaluation criteria, and the development of a standardized costing methodology. Once we have these in place, I would anticipate a thorough review of the placement of current missions with a view towards optimizing assignment of missions between the various components of the total force.

Question: Please discuss any initiatives your office has underway to improve individual training for Reservists. Also give us your assessment of the Services' programs to improve individual training. What new initiatives would you suggest?

Mr. Duncan: Among the Reserve component training environment constraints are geographic dispersion, mobility of Reservists and their families, new weapons systems, distracting administrative requirements, employer demands, testing and training systems designed primarily for the Active environment, limited training time and limited access to some modern equipment needed for training. All of the Services have dedicated programs to overcome these problems.

The various Reserve components are scrutinizing individual training and coming up with innovations. Across the board, contract training is being examined to take advantage of community colleges or other training institutions that may help overcome some of the geographic dispersion problem. This approach may prove valuable in maintaining skills in automation, medical, communications, and language.

The Navy's Modularization Course Training Program involves reformatting active duty training courses into two-day and ten-day segments which Selected Reservists may complete during a combination of weekend drills or annual training. The Navy and the Air Force are modernizing and instrumenting combat and surface attack weapons ranges.

We have been working with the Army on their Reserve component individual training problems. The Army is examining ways to enhance weekend training at unit armories/training centers through the use of modern training devices and simulators tailored to the Reserve component training environment.

The Army also has adopted regional training strategies to provide initial training on modern equipment not accessible to units and sustainment training on all types of equipment. This training can't be readily accomplished through Army schools due to the length of training courses involved, yet it is critical to the performance of the units' wartime mission.

The quality and availability of skill related training will greatly improve as we implement the Reserve Component Training Development Action Plan. Salient features that will benefit skill training are tailoring of courses for Reserve component use, incorporation of technical skill training requirements into the Reserve Component Noncommissioned Officer Education System, and strengthening of the U.S. Army Reserve Forces Schools.

Question: Mr. Duncan, your statement mentions the Reserve Information System. What exactly is this system and its estimated cost for 1990/1991?

Mr. Duncan: The Reserve Component Instructional Information Management System (RIMS) is a combination of interactive, video, audio-graphic, and computer-based, teleconferencing technologies integrated to deliver Reserve Component (RC) training and professional development. The RIMS is the application of DARPA-developed, portable, low-cost, digital, narrow band, video teleconferencing system. RIMS has demonstrated the potential for improving the quantity and quality of standardized training to the RC. The system is capable of delivering training electronically and at low cost to local facilities and to the home of a soldier from a central educational location. RIMS was used successfully in the summer of 1988 to train members of the Army and Air National Guard and the Army Reserve.

A "proof of principle" exercise is planned for FY 89 through FY 91. The estimated costs for FY 90 is $3.1 million; for FY 91 $4.6 million. RIMS will be assessed from the standpoint of cost-effectiveness, educational effectiveness, and the cognitive retention qualities of this type of distance learning.

RESERVE COMPONENT ATTRITION

Question: Stability and personnel attrition in Reserve Component units are real problems and must be addressed in any strategy to improve them. What are you doing to increase the stability in these Units?

Mr. Duncan: Personnel attrition in the Selected Reserve continues to be a concern and is being given a high priority within the Department. We are examining current personnel policies to determine what changes may be required to reduce the number of personnel who fail to complete their service commitments.

The Department has implemented a number of incentive programs authorized by the Congress that are intended to retain the members over the period of the service obligation. These incentives include (1) enlistment bonuses, (2) reenlistment bonuses, (3) affiliation bonus, (4) loan repayment (5) Educational Assistance.

Our studies indicate that two of the major reasons some Reserve members do not complete their obligation in the Selected Reserve, are family and employer concerns. Regarding family concerns, we are continuing to develop programs that support the families of Selected Reservists. We have implemented positive programs such as, issuing dependent identification cards and year-around access to Military Commissaries for Selected Reservists and their families.

The National Committee for Employer Support of the Guard and Reserve (NCESGR), an agency within my office, continues to aggressively pursue Reservist employment matters. NCESGR's mission aims to (1) increase employer understanding of Guard and Reserve members' national defense role under today's Total Force policy and (2) promote an environment in the workplace supportive of military service. NCESGR's Washington, D.C.-based staff of civilian and military personnel from all services supports and manages the grassroots efforts of 3,500 unpaid volunteers in 55 state and territorial committees who organize educational events, tours and speaking engagements to inform employers. Also, state and national ombudsman provide advisory assistance on job-Reserve duty problems.

In recent years, attrition has been masked by the healthy recruiting environment that has enabled the Reserve components to meet and often exceed strength and quality objectives. Attrition at any level is recognized as a serious problem and the Department has a major effort underway to measure this problem and develop initiatives to reduce this unnecessary loss of trained manpower.

Total Force Policy

Question: Now that we are in a period of little to no growth in the defense budget, to what extent do authorized people and equipment in the reserve components match what the current structure calls for? What is DoD's policy in this regard? Do you continue to add structure when what you have may not be fully resourced, or do you match structure to available resources? Do the individual services or reserve components such as the national guard bureau have different views?

Mr. Green: While I cannot address all the aspects of your question, from the manpower perspective, the "90 percent rule" remains in effect. This policy sets a programming goal that, in aggregate, programmed manning for active and reserve units will be at least 90 percent of programmed manpower structure. This policy is designed to insure that force structure does not outgrow our ability to man it.

FORCE STRUCTURE VERSUS AUTHORIZED PEOPLE AND EQUIPMENT

Unclassified

Question: Now that we are in a period of little or no growth in the Defense budget, to what extent do authorized people and equipment in the Reserve components match what the current structure calls for? What is DoD's policy in this regard? Do you continue to add structure when what you have may not be fully resourced, or do you match structure to available resources? Do the individual Services or Reserve components such as the National Guard Bureau have different views?

Mr. Duncan: In answering this series of questions, I am making the assumption that the reference is to major force structure changes which normally are caused by changes in policy, threat perception or tactics. Minor force structure changes occur constantly throughout the Department in response to new weapons or equipment or more efficient methodology.

Specifically, the "trained in unit" manning of the Selected Reserve is at higher than 90% of "wartime structure requirements" except for the Army Reserve at 84.7% and the Army National Guard at 84.1%. Major end items of equipment in the Reserve components will be at 92% of the 1992 requirements based on the current budget plan.

Generally, DoD policy requires a goal of 90% trained in unit strength manpower and equipage of Reserve component units at the same level as active units with commensurate deployment requirements.

Within limits, force structure may and should be added or subtracted without instant equal changes in resources, which should follow the change in force structure and should be justified by the same rationale which led to the force structure change. It is extremely important, however, that existing or planned force structure not become so greatly distanced from reasonable resource expectations that major force expectations are clearly not achievable. We are constantly working to achieve the most desirable force structure within the constraints of available resources and acceptable risks.

As Secretary Cheney recently stated:

> "In today's changing world of emerging new economies, political uncertainties, and fast-paced technological change, our security policy and strategy must remain viable within the context of the changing international landscape, and our forces must be structured to meet a myriad of contingencies and risks. At the President's direction, a major Defense Strategy Review is underway. The results of the review will be of assistance in making major national security decisions in the coming years."

I expect that the strategy review will, when completed, greatly influence future force structure decisions.

Question: Former Secretary of Defense Melvin Laird, in an August 23, 1973 memorandum, stated that "Total force is no longer a 'concept.' It is now the total force policy which integrates the active, guard, and reserve forces into a homogenous whole." Has this really been achieved? Are the active and reserve components interchangeable in terms of capabilities? Should they be?

Mr. Green: The total force concept relies on all manpower assets to meet the defense mission. That does not necessarily imply interchangeable missions. It means planning and allocating the best, most cost-efficient resources capable of meeting the mission requirements, given differences in deployment schedules, training requirements, etc. An effective total force policy matches capability requirements and the ability of units to meet those capabilities under conditions of mobilization. That does not necessarily imply interchangeability in peacetime.

RC EQUIPMENT COMPATIBILITY

Question: Former Secretary of Defense Casper Weinberger, in a memo to the Service Chiefs in June 1982, stated that they must ensure equipment compatibility among Guard, Reserve, and Active units which will serve together on the battlefield. He also said that equipment inventories adequate for effective training are also essential. Two questions: (1) To what extent does equipment compatibility exist, and (2) to what extent do Reserve components have adequate equipment for training of (A) combat forces, and (B) support forces?

Mr. Duncan: The DoD policy of "First-to-Fight, First-to-Equip" has enhanced equipment compatibility between Active and Reserve components. With the implementation of this policy, Reserve component (RC) units that deploy early are equipped with modern equipment similar to Active component units with early deployment requirements. Not only does this policy enhance operational and support compatibility, but also it ensures that the RC units have like equipment for training. Some training problems continue to exist in units possessing older equipment. For example, newly assigned maintenance personnel may have received training in technical schools which have more modern equipment than that possessed by their assigned unit. These mechanics must learn to work on the older equipment by on-the-job training, pending conversion to newer equipment. These problems are being resolved as large quantities of modern equipment are distributed to the RCs as a result of the large investment in modern equipment during the Reagan Defense buildup. To further enhance RC equipment training, specific programs have been implemented by the Services. For instance, the Army implemented the Minimum Essential Equipment for Training (MEET) Program in 1983. This program identifies the minimum equipment needed by a specific unit for training purposes and takes action to distribute that equipment from planned procurement or redistribution. During Phase I of the program, 500 RC units were targeted for distribution of training equipment. Under Phase II, an additional 155 Army RC units were identified in November 1987 to receive training equipment. The Air Force instituted a concept which provides for fully developed simulators at RC formal training units. Additional information on RC training equipment initiatives is available in the annual National Guard and Reserve Equipment Report provided to Congress on February 13, 1989.

Reserve Component Command and Control

Question: Would the Reserve Forces have better results if there was a direct line of command from the Chief of Staff to the Reserve components? Wouldn't this be more in line with the Air Force and the intent of Public Law 90-168 (Reserve Forces Bill of Rights and Vitalization Act of 1967)?

Mr. Duncan: In his December 1988 letter to the Secretary of the Army, the Chairman of the House Appropriations Committee expressed his concern about the Army Reserve's separate and distinct chains of command control. As a result, the Secretary of the Army ordered an Army Reserve Command and Control Study, the results of which are due in late summer.

I have formed no personal opinion on this issue yet, but I am anxious to see the results of the study. The Services have sufficiently different needs that we should be reluctant to impose the Naval Reserve or Air Force Reserve chain of command on the Army merely for purposes of uniformity, but it is obvious that much more is being asked of the Army Reserve today, than was the case when the present structure was adopted.

Question: One colonel expressed his view of the Reserve component as: "For the most part, they will never be as ready as the Active force and we should not expect them to be since they only train a fraction of the time as the Active troops. We should continue to upgrade them and make them as good as they can be within their finite limits because, if we ever need them, they are better than draftees with no training." What is your view of this opinion?

Mr. Duncan: It is absurd for someone to cite a single, unnamed officer's opinion on an issue this complex as evidence of anything. Certainly, I do not share his views. It is obvious that National Guard and Reserve are infinitely better than draftees. Currently, our Reserve components are more ready than ever before in the peacetime history of the country. Every day of the year National Guardsmen and Reservists are successfully performing important missions somewhere in the world. In direct competitions involving teams from the Active and Reserve components, the Reserve component participants hold their own and often win. The Reserve component units, which perform in exercises like Red Flag and REFORGER, train at the National Training Center or train overseas, and they continually receive high grades from their Active evaluators.

The Reserve components have historically been considered particularly strong in aviation and maintenance skills. An Army National Guard AH-64 battalion recently was formed and it successfully completed Army Training and Evaluation Program (ARTEP) long before it was expected

Although each year the training time difference between Active and Reserve forces is large, there are certain factors in the Reserve component environment that help reduce this time-disparity impact. These key members of units tend to remain in the unit for years and provide continuity not normally found in Active units. These key members usually spend much more than 39 days training. For example, according to a study in the Army National Guard, the average officer is paid for the equivalent of more than 70 training days each year. Enlisted members average almost 50 paid training days. In addition, many officers and enlisted members donate time to help improve unit performance. The result is that a significant amount of training, above and beyond the required 39 days of unit training, often is overlooked.

Reserve Component Missions

Question: Has the Army made a mistake in allocating a significant number of missions to the Reserve Component that require an early deployment date, even when these same units are not properly trained or equipped?

Mr. Duncan: It is the clear policy of the Department of Defense to give resources first to early deploying units. There has been uneven implementation of that policy by the Army. It is a fact still, that certain later deploying combat units (which happen to be Active units) are more ready than certain early deploying support units (which are often Reserve units). We have taken steps to correct this problem.

Question: The example of the Navy minesweepers in the Persian Gulf certainly raises questions about having a large percentage of a particular operational capability in the Reserves, but it also raises questions about the viability of the Total Force concept. In your opinion, why weren't the Reserves used to man those ships and should the Department be reviewing those capabilities that are primarily in the Reserves for transfer back to the Active force?

Mr. Duncan: I agree that the Services should be reluctant to assign certain missions exclusively to the Reserve forces, especially critically important missions that may require immediate response on very short notice. I do not agree that the minesweeper issue raises serious questions about the wisdom of the Total Force Policy. That Policy seeks the most effective integration of Active and Reserve forces, using the strengths of each. It assumes that Reserve forces will constitute the primary augmentation for Active forces in circumstances of conflict. Certainly, Reservists must be ready for immediate mobilization, but it is the Navy's view that the circumstances of the minesweeper issue were unique in that the secrecy of the mission (when it was commenced) prevented an involuntary callup, and the urgency of the mission restricted the Navy's ability to contact Reserve volunteers.

OVERVIEW OF THE DEFENSE-WIDE O&M ACCOUNTS

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Tuesday, February 28, 1989.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2216, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will please come to order.

Today the subcommittee will receive testimony presenting the overview of the defense-wide O&M accounts. Mr. John A. Flinn, Director of the Office of Operations, Office of the Department of Defense, will present the testimony. He is also accompanied by Lt. Gen. Charles McCausland, Director of the Defense Logistics Agency; Mr. Hector Nevarez, Director of Dependents Support Policy; and Dr. Bart Lagomarsino for the DOD Dependent Schools.

This meeting today is particularly important because it puts the entire readiness or operations and maintenance account into perspective. For fiscal year 1990 the budget level is $91.8 billion and in fiscal year 1991 $95.5 billion.

There are some increases and program growth. However, there are some serious concerns when you look at what happens to this account in terms of the 5-year plan. Serious reductions are projected, and we will begin to see shortfalls in the next budget year.

Recently there have been articles appearing in newspapers which call for cutting readiness. This subcommittee must be alert to any efforts that reduce readiness-related funding.

I hope that as you present your testimony today that you inform the subcommittee of the major or macro decisions which affected the formulation of the fiscal year 1990 and fiscal year 1991 budget. We want to know what the orders of priority are. You need to identify where program growth occurs and where reductions take place and explain why.

The Defense Logistics Agency was invited because it experienced the largest decline in program growth of any defense agency. On the other hand, the DOD Dependent Schools experienced the largest increase.

The subcommittee has a number of new members, Mr. Flinn, so I would ask that you spend a few minutes explaining how the budget process works and how the O&M portion is pulled together.

You should also explain your programs and define such terms as price growth and program growth so that all are understood. Because Mr. Kasich is not able to be with us at this moment, Mr. Machtley will present Mr. Kasich's his statement.

STATEMENT OF HON. RONALD K. MACHTLEY, A REPRESENTATIVE FROM RHODE ISLAND

Mr. MACHTLEY. Thank you, Mr. Chairman, for your remarks. I want to take this opportunity to welcome Mr. Flinn of the DOD Comptroller Office; Lieutenant General McCausland, and our new Director of DLA; Mr. Navarez, Director for the Dependent Support Policy; and Dr. Lagomarsino representing the Department of Defense Dependent Schools.

Mr. Chairman, I hope this morning's hearing gives this subcommittee, and particularly its new members, an overview of why the readiness account is important. While I understand there are final figures pending the detailed budget submission of the new administration, it already appears that there are reductions in some areas of readiness.

In particular, the training and operational tempos may be experiencing funding shortfalls. If the O&M account must take additional reductions in order to conform to the new administration's revised budget, we may see the beginning of a decline in the combat readiness of our Armed Services.

In the past, the O&M account has taken some fairly substantial reductions even when there was general agreement that readiness was "sacrosanct". Recently, however, there have been statements in the press to the effect that readiness spending should be the first to be reduced. If this subcommittee is to make the case for readiness to Congress, our witnesses must give us a thorough understanding of why readiness matters.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

I would like to thank Chairman Hutto for his remarks, and I want to take this opportunity to welcome Mr. Flinn of the DoD Comptroller's office, Lt. Gen. McCausland, our new Director of DLA, Mr. Navarez, Director for Dependents Support Policy, and Dr. Lagomarsino representing DoD Dependent Schools.

Mr. Chairman, I hope this morning's hearing gives this Subcommittee, and particularly its new members, an overview of why the readiness account is important. While I understand there are no final figures pending the detailed budget submission of the new Administration, it already appears that there are reductions in some areas of readiness. In particular, training and operational tempos may be experiencing funding shortfalls. If the O & M account must take additional reductions in order to conform to the new Administration's revised budget, we may see the beginning of a decline in the combat readiness of our armed forces.

In the past, the O & M account has taken some fairly substantial reductions even when there was general agreement that readiness was "sacrosanct." Recently, however, there have been statements in the press to the effect that readiness spending should be the first to be reduced. If this Subcommittee is to make the case for readiness to Congress, our witnesses must give us a thorough understanding of why readiness matters.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Machtley. Now we will proceed, Mr. Flinn.

STATEMENT OF JOHN A. FLINN, DIRECTOR OF OPERATIONS, OFFICE OF THE DEPARTMENT OF DEFENSE COMPTROLLER

Mr. FLINN. Yes, sir. Mr. Chairman, I would just like to mention that we have a slight change in the witnesses. Dr. Navarez was not able to make it and we have Ms. Carolyn Duke here representing the Section 6 School Program.

Mr. HUTTO. All right, we are glad to have Ms. Duke with us.

Mr. FLINN. You indicated you wanted me to give a brief overview of how the budget is put together, and I will address that before I give a synopsis of my statement.

Mr. HUTTO. If you would, please.

Mr. FLINN. The Department enters into a very lengthy budget review program planning process which actually begins in the January timeframe when general program guidance goes out to the military departments and the agencies. The guidance is in terms of objectives and goals that the Department wishes to achieve over the 5-year defense program.

The service and agencies' program requirements are provided to the Office of the Secretary of Defense in May. A joint review on the part of OSD, OMB, and the various assistant secretaries of the OSD is conducted.

It is a very lengthy process, and out of that comes decisions in terms of program levels and the funding that will be provided for them. In the O&M area operating tempos training levels and flying hour rates are addressed.

It is documented. There is a decision paper that goes back to the military departments advising of the Secretary's decisions. The service Secretaries and the military chiefs participate in that review process. We have, the Defense Resource Board, there are members of that Board that participate in the discussion, the dialogue and the appeal process in terms of alternatives to program levels.

Out of that process funding levels are approved and objectives upon which the service then develops their budgets which are submitted in the mid-September timeframe, again to the Office of the Secretary of Defense.

At that time we go through a very extensive review process in terms of the various appropriations: O&M; procurement; research and development; the military construction and personnel programs; and family housing. We are looking at the various major force programs and various line items that make up those major force programs as we present it to the Congress.

Again, OMB is a participant in that review. That's a very lengthy process, and it takes from September through December time frame to develop those program budget decisions.

The services again are participants in that review process. The Secretary and the Deputy Secretary make the decisions in terms of the programs that will be approved and funding levels. Out of that process then develops the congressional budget which we submit to the Congress in January.

The O&M program that we're addressing here today is categorized into about 15 major groupings as addressed in the O&M overview. Briefly, some of the categories are: flying hours; ship operations; land forces which are more peculiar to the Army and the Marine Corps; base operations programs in support of infrastructure; command control and communications programs; reserve forces; our depot maintenance programs which provide for the maintenance of aircraft ships and combat vehicles; supply and transportation and logistics programs. There are budget line items in O&M for all these.

Medical and training of recruiting and examining is another major section of the O&M budget. The fiscal year 1990 and 1991 budget maintains the operating tempos and readiness levels that we anticipate to be achieved in 1989 with just one exception. The operating tempo for Army is down to 800 miles per combat vehicle, on the average, which is a decrease from 1989. The 1989 level was programmed at 850 miles. The Air Force and Navy operating tempos are sustained from 1989; there is no reduction in operating tempos.

The budget maintains the readiness levels achieved in prior years. There are increases in depot maintenance and facility maintenance backlogs. This is a matter of funding priorities. But the program is balanced. The depot maintenance program, the repair of end items, and repair parts is balanced with the operating tempos that we have reflected in the budget.

Mr. HUTTO. Let me just ask you a couple of questions before you continue.

Mr. FLINN. Yes, sir.

Mr. HUTTO. Regarding the budget process, a few years ago we mandated that the Defense Department present a biennial budget and that was done in the last Congress. We're not to the stage yet where the Congress is on biennial budgeting and we are still in annual appropriations. If we could go to a longer budget cycle, would that significantly change what you would do and how, just briefly, would it affect you? It seems to me it would be a much more efficient way to do business.

Mr. FLINN. Well, yes, sir, we are presenting the budget, as you indicated, on a biennial basis right now for fiscal 1990 and 1991.

The advantage to a 2-year appropriation at such time is that it affords the Department the opportunity to make long-range plans; early enactment of appropriations; gives us the opportunity to decide based on the funding levels that are approved what adjustments we have to make at a much earlier time and will allow for more orderly execution of programs.

Mr. HUTTO. The budget that you are going to be talking about today, is it the Reagan budget or is this the Bush budget?

Mr. FLINN. This is the Reagan budget, Mr. Chairman.

Mr. HUTTO. The Reagan budget.

Mr. FLINN. That's right. I am not prepared today to talk in terms of any adjustments relative to the Bush budget.

Mr. HUTTO. All right. But will you be able to do that?

Mr. FLINN. The Department, as you may know, is currently—we are just getting into that next stage. As it has been indicated we are looking at a zero growth budget and looking at alternatives in terms of taking some approximate $6 billion out of the budget.

The impact of the reductions on the O&M appropriation I'm really not prepared to comment on. We are really just getting into the first stages of that adjustment.

Mr. HUTTO. You may proceed with your statement.

Mr. FLINN. Sir, I would like to just begin by discussing some of the more significant assumptions that are reflected throughout the O&M title. Then I would like to turn to General McCausland and Dr. Lagomarsino and Ms. Duke to speak to their respective pieces of the budget.

For fiscal 1990 the O&M budget request the title level is $91.8 billion, which is an increase of $4.9 billion in obligational authority over 1989 funding. This will provide for approximately $2.2 billion in real growth or a 2.5 percent increase over the 1989 level.

As I have already indicated, the program growth falls in both the direct readiness and support areas, and will maintain force training levels that we planned to achieve in 1989.

For fiscal 1991 the request is $95.5 billion which provides for an increase of $3.7 billion over the 1990 level. This provides for approximate $1 billion in program growth or approximately 1 percent over the 1990 level.

The price growth amounts that are reflected in the budget includes $.5 billion in 1990 and $900 million in 1991 for civilian pay raises of 2 and 3 percent respectively effective on January 1 of each year. These pay raise amounts are included in the individual O&M appropriations consistent with OMB guidance, rather than requesting a supplemental appropriation. It is advantageous in execution of the programs knowing what the funding levels we will have to execute through the year.

Mr. HUTTO. Mr. Flinn, would you, for the members, explain the difference between program growth and price growth.

Mr. FLINN. Yes, sir. The 1990 request has included approximately $2.7 billion for price growth over the 1989. That represents a 3.4 percent inflation factor based on the standard OMB inflation index.

The $2.7 billion represents the additional cost to accomplish 1989 programs that are carried forward into fiscal year 1990.

Price growth also includes the pay raise increases for civilian personnel that we have reflected in the budget each year.

Program growth provides for increased activity levels; increased flying hours; increased levels of depot repair or increased steaming levels for Naval ships.

The inflation rates that this budget is based on is 3.4 and 3 percent in 1990 and 1991 respectively.

The stock fund fuel prices reflected in the budget are $23.56 per barrel in fiscal 1990; and $24.83 per barrel in 1991. This is approximately 10 percent below the 1989 cost of 26.46 cents per barrel in fiscal 1989. Fuel prices in 1991 are projected to increase at about 5 percent over fiscal 1990.

Mr. HUTTO. What basis do you use for projecting that the fuel prices will be lower in 1990?

Mr. FLINN. This is based on projections based on current contract prices that the Defense Supply Fuel Center experiencing at the time the budget is formulated.

The foreign currency rates reflected in the budget represent an increase over fiscal 1989. We have included an increase of $868 million in fiscal 1990 which represents about a third of the price increase.

For example, the Deutsche mark is priced at 206 to the dollar in 1989 and $1.75 to the dollar for 1990 and 1991. Those are rates experienced at the end of November 1988.

While foreign currency rates have become more favorable in the recent past, the department still experiences a shortfall in fiscal 1989. We have reflected a transfer in fiscal year 1989 budget of approximately $580 million from stock fund assets to resolve this shortfall.

This reprogramming from the stock fund is possible due to favorable fuel prices experienced in fiscal 1988 and 1989. However, this will not solve a long term problem of having insufficient balances in the foreign currency account. The Department has requested the approval of legislative language which would permit the transfer of unobligated balances from expired procurement accounts to the foreign currency account. We solicit the committee's approval of this proposal.

Mr. HUTTO. Mr. Flinn, it might be well for you also to explain what is meant by the non-fuel stock funds?

Mr. FLINN. Mr. Chairman, that refers to the commodities piece, the repair parts and miscellaneous supplies, medical, various equipment items that are bought from the stock fund vice fuel.

Mr. HUTTO. Will you tell us just a little bit how that operates.

Mr. FLINN. I would defer to DLA to speak to the stock fund.

Mr. HUTTO. We will wait for them.

Mr. FLINN. The budget also reflects in fiscal year 1989 a reprogramming of some 300 million to finance the 2.1 percent additional civilian pay raise that the Department had to absorb.

I would like to highlight the fact that the O&M title does include some $500 million in both 1990 and 1991 for the DOD base closure account. These funds will provide for advance planning, design, construction and other activities incident to the transfer and closure of functions and facilities as we proceed with the closure and realignment actions.

The budget also at this time reflects a separate appropriation for the Office of the Inspector General. This is incident to the Inspector General Act Amendments of 1988, Public Law 100-504 which directed the establishment of a separate appropriation for the Inspector General. Previously the Inspector General was included in the overall defense agency's appropriation.

I would now like to turn to a brief overview of the Defense request. There are currently 21 Defense agencies within the Operation and Maintenance Defense agencies appropriation. We have divided these agencies into about five broad categories of support; readiness; intelligence and communications; audit and investigative activities; defense management support; and military personnel support.

Overall the Defense agencies appropriation increases by some $254 million from 1989 which reflects an approximate $21 million net decrease in program growth.

The bulk of the program growth that's reflected in Fiscal 1990 for the Defense agencies account appears in the intelligence and communications category. There's a program increase of some $128 million in that area which due to security classification I do not plan to discuss at this point.

The next major area of growth in the agencies is in the audit and investigative activities. There is an approximate $30 million increase for the Defense Contract Audit Agency and for the Defense Investigative Service to provide for additional personnel levels in order to maintain the investigative and audit enhancements that we have achieved in the past.

The next major area of growth in the Defense Agencies appears in the Dependent Schools area. There is an approximate $23 million increase in that area, which Ms. Duke and Mr. Lagomarsino will talk to today.

Mr. Chairman, that completes my overview and if you wish we could answer any questions you may have on the overview or we can turn to General McCausland and the Dependent School program, if you would.

PREPARED STATEMENT OF JOHN A. FLINN

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you to discuss the FY 1990 and FY 1991 budget requests for the Operation and Maintenance accounts.

With me this morning are Lieutenant General Charles McCausland, the Director of the Defense Logistics Agency; Dr. Hector Nevarez, the Director for Dependents Support Policy; and Dr. Bart Lagomarsino for the DoD Dependents Schools.

I would like to begin by discussing some of the more significant assumptions which are reflected throughout the O&M title, provide you with a brief overview of the Defensewide O&M accounts, and then turn to General McCausland and Drs. Nevarez and Lagomarsino who will discuss the FY 1990 and FY 1991 budget requests for the DLA and dependents education programs.

For FY 1990 the O&M budget request at the title level is $91.8 billion which reflects an increase of $4.9 billion in total obligational authority over the FY 1989 funding. Of this amount, approximately $2.2 billion represents real growth of 2.5% and the remaining $2.7 billion provides for price increases. As you will see in your upcoming hearings with the Services, the program growth falls in both the direct readiness and support areas and for the most part will maintain the training levels of the operating forces planned in FY 1989. For FY 1991 the request is $95.5 billion which provides an increase of $3.7 billion over the FY 1990 level comprised of $1.0 billion for program growth (1.0%) and $2.7 billion for price increases.

The price growth amounts include $.5 billion in FY 1990 and $.9 billion in FY 1991 for civilian pay raises of 2% and 3%, respectively, to be effective on January 1st of each year. The FY 1991 civilian pay raise estimate also includes the annualization effect of the FY 1990 pay raise. These pay raise amounts are included in the individual O&M appropriations consistent with OMB guidance, which is an action favored by the Department because it provides funding sooner than if appropriated in a supplemental. This is highly advantageous in executing the DoD program.

The O&M budgets assume an inflation rate of 3.4% and 3.0% in FY 1990 and FY 1991, respectively. We use these rates whenever we do not have specifically developed rates, such as for stock and industrial fund purchases, fuel, etc. These rates are also consistent with OMB guidance.

Stock fund fuel prices are priced at $23.56 per barrel in FY 1990 and $24.83 per barrel in FY 1991. The FY 1990 cost is approximately 10% below the FY 1989 cost of $26.46 per barrel while the FY 1991 cost is estimated to rise about 5% over that in FY 1990.

Nonfuel stock fund and industrial fund purchases also reflect individual rates which are set for each commodity and activity group. These rates vary according to the circumstances of each individual commodity and activity group. However, in general the stock fund rates are higher in FY 1990 and lower in FY 1991 in comparison to the previous year while industrial fund rates increase in both years.

In terms of foreign currency, we have priced the FY 1990 and FY 1991 estimates at the rates prevailing at the end of November 1988. This required the addition of $867.6 million in FY 1990 which represents about a third of the $2.7 billion price growth amount. This action recognizes that the rates have become less favorable than those budgeted in FY 1989. For example, the Deutsch Mark is pegged at 2.06:$1 in FY 1989 and 1.75:$1 for FY 1990/FY 1991.

While the foreign currency rates have become more favorable during the last two months in relation to those budgeted in FY 1989, the Department is still experiencing a shortfall in the FY 1989 program. At the time the FY 1990/FY 1991 budget was formulated, the shortage was estimated at $.9 billion. Normally, this shortage would be financed by transfers from the Foreign Currency Fluctuations account; however, the balance in this account at the end of FY 1988 was only $231 million and not sufficient to solve the problem. Consequently, the FY 1990 budget anticipates a reprograming of $580 million from the stock fund into the O&M accounts to resolve this situation.

The reprograming action from the stock fund is possible due to favorable fuel prices, but it does not solve the long-term problem of having insufficient balances in the Foreign Currency Fluctuations account. To correct this, the Department has submitted a language request to permit transfers of unobligated balances from the expired Procurement accounts to the Foreign Currency account, and we solicit the Committee's approval of this proposal.

While on the subject of FY 1989 financing, the Committee should also be apprised that we will submit a reprograming action approximating $300 million to finance the 2.1% civilian pay raise amount in FY 1989 that was not previously budgeted or appropriated. This will finance the remainder of the January 1, 1989, civilian pay raise of 4.1%. The source of funds for this reprograming comes from inflation saving in all the Department's appropriations resulting from a change in OMB's economic assumptions.

Before leaving the discussion of the overall O&M title, I also need to update the committee on some changes in the O&M account structure. The most significant is the addition to the O&M title of the DoD Base Closure account budgeted at $500 million each year in FY 1990 and FY 1991. These funds will enable the Department to conduct advance planning and design, acquire land, construct replacement facilities, and perform other activities necessary to transfer functions affected by the closure/realignment actions.

In addition to this, the title reflects the establishment of a separate appropriation for the Office of the Inspector General. The requirement to establish this separate account stems from the statutory direction of the Inspector General Act Amendments of 1988, Public Law 100-504. Funding for the IG was previously included in the O&M and Procurement, Defense Agencies Appropriations, and the new account will provide for both O&M and Procurement requirements.

I will now turn to an overview of the Operation and Maintenance, Defense Agencies appropriation.

There are currently 21 Defense Agencies included within the Operation and Maintenance, Defense Agencies Appropriation that provide essential support to the missions of the Military Departments. The Agencies have been formed to perform activities which are common to all of the Services and which can be accomplished more efficiently and economically by a single organization. In addition to the change I mentioned previously for the DoD IG, the Defense Information Services Activity (DISA) was disestablished in September 1988, and its functions were consolidated into the Office of the Secretary of Defense (OSD) under the Assistant Secretary of Defense (Public Affairs). This consolidation resulted from the reviews mandated by the Goldwater-Nichols Defense Reorganization Act.

To provide a better understanding of the diverse programs within the Defense Agencies, we have divided them into five broad categories: Readiness, Intelligence and Communications, Audit and Investigative Activities, Defense Management Support, and Military Personnel Support. The attachment to my statement shows the Agencies grouped under each category along with the price and program growth associated with each Agency and category.

Overall, FY 1990 funding increases by $253.9 million from FY 1989 consisting of an increase of $274.6 million for price growth and a decrease of $20.7 million for program growth. Excluding the transfer of the $91.6 million to the new Inspector General appropriation beginning in FY 1990, the program growth for the Defense Agencies nets to $70.9 million, representing a .9% increase over FY 1989. Of the total price increase, $44.8 million is for the annualized impact of the FY 1989 pay raise, $58.2 million is for the FY 1990 pay raise, and $25.9 million is for the dependent school teachers FY 1990 pay raise. The remaining price increase of $145.7 million is for standard price growth associated with supply and equipment purchases, rents, and contractual efforts.

In FY 1990 the Intelligence and Communications category, comprised of the National Security Agency, the Defense Intelligence Agency, and the Defense Communications Agency, accounts for a program increase of $127.7 million. Most of the FY 1990 growth falls in the intelligence area, and to avoid problems of security classification, I do not plan to discuss this area further today.

The next major area of program growth in FY 1990 occurs in the Audit and Investigative Activities category which has a net program increase of $30.5 million exclusive of funds transferred to the new Inspector General appropriation. The Defense Investigative Service increase of $10.2 million supports the addition of 138 new manpower authorizations in FY 1990 and annualized workyear requirements. This will provide for new Defense National Agency Checks with written Inquiries, a revised interim clearance process for industrial employees, and quality improvements in the Industrial Security Program. The program growth of $20.3 million for the Defense Contract Audit Agency supports additional staffing and 483 workyears to continue the initiative on reducing the backlog of incurred cost audits and to adequately perform defective pricing reviews. The increase also provides for implementation of the DCAA Integrated Information System, and additional training requirements at the Defense Contract Audit Institute. The separate appropriation for the Office of the Inspector General also reflects program growth of $3.1 million to support an additional 65 workyears in

FY 1990 for additional audit efforts. These three programs have been highly supported by the Department and Congress in the continuing effort to enhance security and identify and eliminate fraud, waste, and abuse within the Department.

The Readiness category includes an increase of $5.3 million for the Defense Mapping Agency for the installation and phase-in of the new Digital Production System supporting the mapping, charting, and geodesy requirements of the Military Departments. This increase is offset by reductions to both the JCS Exercise Program and the Defense Logistics Agency. The JCS Exercise Program is reduced by $9.1 million which will still provide a program of 71,600 C-141 equivalent airlift flying hours to support joint readiness training. To accommodate the reduced level of funding while maintaining the required levels and quality of training, increased use of wargaming and computer simulation is being tested to offset the reductions in large, troop intensive field training exercises. The program reduction of $139.0 million for the Defense Logistics Agency relates to a budgeted 5% increase in productivity; equipment and real property maintenance cost-savings initiatives enacted in FY 1989; and making significant progress toward completing investments in depot operating equipment, storage aids and quality of life improvements during FY 1989 that permit reducing the level of effort required in FY 1990.

The Defense Management Support category reflects net program growth of $27.2 million in FY 1990. An increase of $8.8 million for the Washington Headquarters Services supports computer and office automation initiatives, office space requirements, and equipment maintenance contracts. Program growth of $9.3 million for the Office of Economic Adjustment predominately supports expanded programs for the Military Family Resource Center.

Program growth of $5.1 million in FY 1990 has also been budgeted for the Defense Nuclear Agency to support the continuing upgrade of the Johnston Atoll to meet host responsibilities supporting the Army chemical demilitarization effort, continued modernization of the World-Wide Military Command and Control Information System, and support of nuclear accident exercises. The Defense Technology Security Administration has program growth of $4.7 million to support the new High Technology Export Analysis and Control System for the 1990's (HI-TRAC 90), which is an enhancement of the technology security computer system.

An offsetting reduction of $2.1 million for the On-Site Inspection Agency results from the reduced level of activity for inspections and routine activities as the level of close-out and elimination inspections begins to decrease. There is also a reduction of $.8 million in the Office of the Secretary of Defense for reduced contract studies and analyses efforts.

The Military Personnel Support category reflects a net program increase of $28.3 million in FY 1990. The most significant increase in this category occurs in the dependents school activity which will increase by $23.2 million. This change predominately supports the asbestos removal program, textbook purchases, and educational program enhancements. There is also program growth of $8.9 million for the American Forces Information Service to support expansion of radio and television satellite service at sites in the Persian Gulf, mainland Japan, Greece, and the Netherlands and transfer of the Current News and Analysis and Research Service to AFIS from the Air Force. Offsetting these increases is a reduction of $5.6 million for the Defense Medical Support Activity related to one-time communication network costs in FY 1989, reduced Composite Health Care System requirements, and decreased maintenance for medical information systems.

Mr. Chairman and members of the Committee, this completes my statement. I will be happy to answer any questions you may have before turning the table over to General McCausland and Drs. Nevarez and Lagomarsino.

DEFENSE AGENCIES
(Dollars in Millions)

	FY 1988 Actual	FY 1989 Estimate	PRICE	PGM.	FY 1990 Estimate	PRICE	PGM.	FY 1991 Estimate
Readiness								
DMA	504.7	518.3	20.1	+5.3	543.7	20.1	+56.3	620.1
DLA	1,978.7	2,164.7	61.3	-139.0	2,087.0	55.8	-109.8	2,033.0
JCS Exer	265.8	299.8	-10.1	-9.1	280.6	5.7	-	286.3
Total	2,749.2	2,982.8	71.3	-142.8	2,911.3	81.6	-53.5	2,939.4
	(37.8%)	(38.1%)			(36.0%)			(35.0%)
Intelligence/Communications								
Total	2,368.8	2,561.7	84.7	+127.7	2,774.1	98.3	+27.9	2,900.3
	(32.5%)	(32.7%)			(34.3%)			(34.5%)
Audit/Investigative Activities								
DIS	155.4	163.5	4.6	+10.2	178.3	4.4	+7.1	189.8
DCAA	243.1	291.1	18.7	+20.3	330.1	21.4	+1.8	353.3
OIG	83.7	89.7	1.9	-91.6	-	-	-	-
Total	482.2	544.3	25.2	-61.1	508.4	25.8	+8.9	543.1
	(6.6%)	(7.0%)			(6.3%)			(6.4%)
Defense Management Support								
OSD	100.6	115.0	5.2	-.8	119.4	4.8	-1.2	123.0
JRAP	27.0	31.3	1.1	+.6	33.0	1.0	+2.0	36.0
WHS	119.4	124.2	4.0	+8.8	137.0	4.0	+23.0	164.0
DISA	2.1	-	-	-	-	-	-	-
DTSA	5.7	5.8	.1	+4.7	10.6	.3	-.3	10.6
DNA	64.6	68.3	2.0	+5.1	75.4	2.3	+7.1	84.8
OSIA	19.9	50.3	1.6	-2.1	49.8	1.4	-2.4	48.8
OJCS-MgtHq	68.6	57.8	1.8	+1.1	60.7	1.7	+2.0	64.4
OEA	18.1	19.6	.7	+9.3	29.6	.9	+.9	31.4
DLSA	6.4	6.0	.3	+.5	6.8	.3	-	7.1
Total	432.4	478.3	16.8	+27.2	522.3	16.7	+31.1	570.1
	(5.9%)	(6.1%)			(6.5%)			(6.8%)
Military Personnel Support								
AFIS	61.5	62.4	2.1	+8.9	73.4	2.2	+1.8	77.4
CHAMPUS	112.5	45.9	1.4	+.8	48.1	1.3	+2.3	51.7
DoDDS	943.0	1,016.6	68.6	+23.2	1,108.4	61.4	+14.9	1,184.7
USUHS	38.0	35.3	1.1	+1.0	37.4	1.1	-	38.5
DMSA	94.2	103.8	3.4	-5.6	101.6	3.0	-1.7	102.9
Total	1,249.2	1,264.0	76.6	+28.3	1,368.9	69.0	+17.3	1,455.2
	(17.2%)	(16.1%)			(16.9%)			(17.3%)
GRAND TOTAL	7,281.8	7,831.1	274.6	-20.7	8,085.0	291.4	+31.7	8,408.1
	(100.0%)	(100.0%)			(100.0%)			(100.0%)
% GROWTH		+7.5%	+3.5%	-.3%		+3.6%	+.4%	

Mr. HUTTO. All right, sir. Thank you, Mr. Flinn. Before we go to questions we will continue with the statements. At this time we will hear from Lt. Gen. Charles McCausland, the Director of the Defense Logistics Agency.

General.

STATEMENT OF LT. GEN. CHARLES McCAUSLAND, USAF, DIRECTOR, DEFENSE LOGISTICS AGENCY; ACCOMPANIED BY: WILLIAM CASSELL, CONTROLLER

General MCCAUSLAND. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, with your permission I would like to submit my prepared statement for the record and make a few brief remarks.

Mr. HUTTO. Without objection your entire statement will be included in the record, and we would appreciate your summarizing. Thank you.

General MCCAUSLAND. Thank you, sir.

With me today is Bill Cassell, the DLA comptroller. It is a pleasure for us to be here to discuss our budget request.

I assumed the position of Director of DLA in November. This is my first opportunity to appear before this subcommittee. I read the transcript from last year and know that my predecessor, General Russo, did an excellent job describing to you the critical role DLA plays in the logistics support of the Commanders in chief and the military services. I know I don't need to repeat that.

Suffice to say, DLA exists to support our men and women in uniform. There is nothing in our budget request that is not for that purpose.

Our budget request is based upon three principles: first, we must continue to provide effective and quality support on a day-to-day basis to our customers, the military services.

Second, we must be prepared for an increased tempo in the event of mobilization.

Third, we must meet these responsibilities at the lowest possible cost. We must continually strive to increase our productivity.

I have long known from my prior assignments in DLA, and now as the director, even as a customer, that the agency does an excellent job of supporting the services. This is due to the dedication of the men and women in DLA, and in no small part to the support of the subcommittee and other members of Congress.

I was pleased to learn when I became director that the agency also has a productivity record in which it can take great pride. With your continued support, we can repeat the productivity gains of the past and even do better.

We must continue to exploit new technology information processes. Ours is a labor-intensive business involving tremendous volumes of information and documentation.

Front-end investment in data processing and communication capabilities will improve the way we handle these data and subsequently reduce costs by making us more productive.

We need to modernize the facilities and improve the working conditions of our people. Most of our people work in renovated warehouses and shabby buildings; many over 30 years old. These buildings are costly to maintain and an impediment to efficient operations. Perhaps worse, they are not conducive to getting the long-term commitment we need from our people.

Perhaps, most important of all, we need to foster the environment of team work in which all of our managers and employees strive to improve quality and reduce cost.

Thanks to the support of Congress we have started, for example, "success share", our version of gain sharing. In this program employees get a share of savings based on productivity gains of our activity.

At our supply depot in Mechanicsburg, PA, employee teamwork paid off last year. Depot costs were $896,000 below a budget that included a significant productivity gain. The employees shared $448,000. The average payoff per person was $310. We are now expanding this program to other depots.

DLA has been making significant investments in equipment information technology and real property maintenance and we need to continue to do so in fiscal year 1989. Technological improvements, along with an emphasis on people-oriented efforts to change our culture to a participatory environment, will allow us to improve our level of service and realize our productivity improvements of at least 5 percent per year.

These are the considerations that are in our 1990 and 1991 budget request. Our O&M request assumes our workload, driven by the military services, will be at the same level as 1989, and we will be able to achieve a 5 percent increase in productivity in both 1990 and 1991.

To help us achieve that productivity goal our 1989 estimate includes a proposed reprogramming of $105 million. These funds will help us meet our 1989 workload and allow us to make the investments in technology, equipment, and facilities that I spoke of earlier.

The 5 percent productivity gain is a recurring annual improvement worth more than $50 million a year. This investment will pay for itself quickly and continually. With that in mind, I hope this subcommittee will look upon the reprogramming request favorably when it comes before you later in the year.

Of course, there are risk associated with this budget request. Like any business, we have assessed those risks and are prepared to deal with them. If our workload estimate is wrong, too low, we will have to forego some of our planned productivity investments. If our reprogramming request is not approved, the same thing will happen. In either case, we will not be able to achieve the productivity savings and that would be unfortunate.

We have weighed the uncertainties carefully, and I am comfortable with our budget as presented. By that I mean, if we are able to execute 1989 as planned, I will believe we will be able to achieve the goals we have set for ourselves in 1990 and 1991.

Mr. Chairman, I would like to say again that I appreciate the opportunity to be here today, and I will be happy to answer any questions that you or other members of the committee may have.

PREPARED STATEMENT OF LT. GEN. CHARLES MCCAUSLAND

Mr. Chairman and Members of the Subcommittee:

I am Lieutenant General Charles McCausland, Director of the Defense Logistics Agency (DLA). I reported to DLA this past November, so this is my first appearance representing the Agency before your Subcommittee. I appreciate this opportunity to explain how DLA contributes to the readiness of the Military Services, and, also, to tell you about some of the initiatives the Agency has undertaken to improve the effectiveness and efficiency of our work force.

Before I explain our FY 90/91 Budget Request, I would like to tell you a little bit about our Agency and the role we play in the overall DoD logistics effort. DLA exists to support the Commanders in Chief (CINCs) and the Military Services. In doing so, we provide most of the fuel, clothing and subsistence items used by the Services. In total, we manage approximately 60 percent of the consumable items in DoD and fill about 74 percent of the total requisitions.

We administer contracts for DoD, NASA and certain other Federal Agencies. In doing so, we deal with approximately 30,000 contractors. This involves assuring that the contractor's total performance is in accordance with contractual commitments, assuring contractual quality requirements are met and paying contractor invoices.

We operate the Federal Catalog System and are responsible for management of the reutilization and marketing of excess Department of Defense property. In addition to those tasks, we have recently been assigned responsibility for managing the National Defense Stockpile.

We are involved in each phase of the life cycle of the major systems process, from providing technical information during the development process, to disposal at the phaseout of an item. Each Service can turn in any usable or unusable item, except for a few categories of hazardous material, such as explosives, to one of our 217 Defense Reutilization Offices located throughout the world. They screen the material and it is either reutilized, donated or sold, with the funds being returned to the Treasury.

The magnitude of our support is reflected in the following FY 88 data: received 28.8 million Service requisitions; bought and sold $10.8 billion worth of supplies; awarded over 1.4 million contracts through our Supply Centers; received and shipped 20.4 million line items at our Supply Depots; made payments of $51 billion to contractors, while processing nearly 2 million invoices. In doing that, we obtained more than 99 percent of the discounts called for under the contracts we paid.

About one-third of the items DLA manages has been identified by the Military Services as critical to the operation of weapon systems. Those items represent approximately 50 percent of the requisitions we receive. They are managed more intensely and we are proud to say they consistently have a supply availability higher than nonweapon system items. In the supply area, our effectiveness, as measured by the percentage of time we have stock on hand to satisfy customers' requisitions, continues to be the best in the Department of Defense. In FY 88, our supply system effectiveness was 89.4 percent. So far, in FY 89 it is 89.6 percent.

Earlier, I mentioned the National Defense Stockpile. The Stockpile is an inventory of strategic and critical materials that would be needed by the federal and private sectors during a national emergency. The inventory includes a variety of materials such as copper, zinc and platinum.

In summary, DLA is not an administrative agency that develops policy and issues guidance. We issue supplies which we have bought and stocked. We do the action; hands-on work that I have described. As such, we are an integral part of the Military Services' logistics readiness system.

Now I would like to turn to our Budget Request. I would like to give you a little background so as to provide a framework for your review. Our budget submission is based on the following considerations:

a. That we must provide effective and quality peacetime support to our customers--the Military Services.

b. That we must be prepared to meet our responsibilities to provide that same level of support in the event of mobilization.

c. That we must meet our responsibilities at the lowest possible cost, which means that we must find ways to increase productivity significantly.

Thanks to the efforts of this Subcommittee, my predecessors and the dedicated civilian and military personnel of this Agency, my observation after just a few months is that we do a good job of supporting the Services and have a productivity record in which we can take pride. But my staff and I are in complete agreement that we can do better.

To do better, we must continue a number of initiatives that we have already begun:

First, a commitment on the part of all of our people to quality in everything that we do. We have embarked on a systematic approach to improving the products and services to our customers. We intend to get everybody in DLA involved in reviewing existing processes and to strive for continuous improvement.

Second, an intensive effort to take advantage of the new technologies in information processing. We deal in tremendous volumes of documentation. Our current processes are extremely labor-intensive. By taking advantage of currently available improvements in data processing and communications capabilities, we can improve the timeliness and quality of our support, provide more challenging jobs for our personnel and significantly reduce costs. Achievement of these goals requires front-end investment in both hardware and software.

Third, improvement in the working conditions we provide our personnel, as well as an overall modernization of most of our facilities. We operate a very large and complex business. We spend over $13 billion a year, about 5 percent of the DoD outlays. Most of our people are working in renovated 30-40 year-old warehouses that are not conducive to getting the long-term commitment we must get from these people. In addition, many of these older facilities are costly to maintain and an impediment to efficient operations. We clearly have not been making the investments that any business of this size should make to improve quality and reduce costs.

Fourth, in order to meet our mobilization responsibilities, we must find additional fuel storage capacity in the locations determined by the CINCs and the Military Services. After obtaining that storage, we must, of course, buy and stock the required fuel reserves.

Fifth, and probably most important, the creation of an environment in which all of our managers and employees will strive to improve quality and reduce costs. Thanks to the support of the Congress, we have a number of initiatives underway to improve the productivity of our work force. We have embarked on a number of gain-sharing efforts -- we call it "success share" -- whereby the employees get a share of the savings realized by increases in productivity. For example, at our supply depot in Mechanicsburg, Pennsylvania, we have instituted a success share program where employees can receive cash payments based on the productivity gains of the entire activity. Their teamwork paid off, and last year the costs at the depot were $896 thousand below the budget that had been assigned to the activity. Incidentally, their budget assumed a significant productivity gain. The employees shared $448,000, and the average payout per employee was $310. We are in the process of expanding this idea to our other supply depots.

In summary, DLA has made significant investments in operating equipment, office automation equipment, and real property maintenance projects, and we need to continue to do so in FY 89. We are trying to provide our employees with the tools and the environment that will foster increased efficiency. We are improving our management information systems. We are encouraging employees to suggest new and better methods for doing the job, and we are exporting those ideas from one activity to another. We are using some new incentive programs to encourage employees to work smarter and more efficiently. By making investments in technology and facilities, improving physical working conditions, and by emphasizing people-oriented efforts so as to change the culture to a participatory environment, I am confident that we can realize productivity improvements of at least 5 percent per year. This is on top of the gains already realized.

Since the end of the Vietnam conflict, DLA has experienced workload increases averaging 3-4 percent per year, yet we have approximately the same number of employees as then, despite increases in personnel for a more complex procurement process. If our cost per output was the same as in 1975, our Operations and Maintenance (O&M) costs would be approximately ONE BILLION dollars higher than we spent in FY 88. I feel confident that the initiatives we have underway will produce continued improvements in the future.

The considerations I have discussed are reflected in the following table, which summarizes our current FYs 90/91 request for all appropriations:

BUDGET AUTHORITY
($ IN MILLIONS)

APPROP.	FY 89	PRICE GROWTH	PROGRAM GROWTH	FY 90	PRICE GROWTH	PROGRAM GROWTH	FY 91
O&M	2164.7	61.3	(139.0)	2087.0	55.6	(109.6)	2033.0
PDA	75.8	2.2	59.8	137.8	3.4	(6.8)	134.4
RDT&E	61.3	2.1	0	63.4	1.9	9.1	74.4
MILCON	41.4	1.3	56.8	99.5	2.8	(7.1)	95.2
FH	0.5		0.3	0.8		(0.2)	0.6
SFUND	25.0		94.1	119.1		57.2	176.3
S'PILE TRANS FUND	33.5		(33.5)				
TOTAL	2402.2	66.9	38.5	2507.6	63.9	(57.6)	2513.9

As you can see, our budget request reflects the considerations I have discussed. Significant increases in our Construction and Procurement accounts, and a reduction in our O&M account. Over two-thirds of the MILCON request is dedicated to the fuels projects I mentioned and to new warehouses. I would expect our MILCON requirements to grow in the future. The Procurement requirements driven by the need to modernize ADP and Mechanized Materials Handling systems should fall off slightly after FY 91.

Our O&M request assumes that our workload will be at the same level as FY 89 and that we will achieve a 5 percent increase in productivity in 90 and 91. Since some of the initiatives I described above are already underway, we believe we should take a prudent risk and assume that we can achieve budgeted productivity improvements. However, in order to achieve that gain, our FY 89 estimate includes a proposed reprogramming of $105 million, primarily from the Defense Stock Fund. These funds will be used to cover our current estimate of workload and investments in O&M-funded equipment and the real property maintenance improvements we must make in our old facilities. I should point out that the 5 percent is an annual improvement. If we are as successful as I believe we will be, our FY 91 cost per output will be more than 10 percent below that of FY 88. With this goal in sight, I hope that this Subcommittee will support our investments and the reprogramming action when it arrives.

Of course, there is a great deal of uncertainty about the workload estimate. Each 1-percent increase in workload costs us about $10 million. Our discussions with the Military Services support our estimate of level workload. In fact, it is possible that our customers will call on us for additional support as they have in the past when their budgets were constrained. We expect to be given additional items to manage and additional responsibilities may be delegated to our contract administration offices by the procuring activities. With all of this uncertainty, the best assumption was to estimate that workload would be level.

The point is that DLA does not control its workload. The Services do. That makes it all the more imperative that we continue to invest in equipment, facilities and training to get improved effectiveness.

Given the uncertainties, I am as comfortable as possible with our budget as presented and believe that if we are able to execute in FY 89 as planned, we will be able to achieve the goals we have set for ourselves in FYs 90 and 91.

Mr. Chairman, I would like to say again that I appreciate the opportunity to be here today, and I will be pleased to answer any questions you or the Subcommittee members may have.

Mr. HUTTO. Thank you, General McCausland.

Ms. Duke, do you have a statement?

Ms. DUKE. Sir, I have some remarks I would like to make.

Mr. HUTTO. You may proceed.

STATEMENT OF CAROLYN DUKE, BUDGET ANALYST, SECTION 6 SCHOOLS, DEPARTMENT OF DEFENSE; ACCOMPANIED BY: SHEILA FORD, PROGRAM ANALYST

Ms. DUKE. Thank you.

I'm Carolyn Duke, budget analyst for Section 6 schools within the Department of Defense. I am pleased to have this opportunity to appear today and speak on the operations and maintenance program. With me is Ms. Sheila Ford, program analyst, with Section 6 schools.

Section 6 schools are established under Section 6 of Public Law 81-874 to provide a free public education comparable to the State in which they are located for eligible dependents of DOD military and civilian personnel stationed stateside and in Puerto Rico.

Section 6 schools have 33,294 students in 67 schools in eight states and Puerto Rico. In addition, Section 6 has special arrangements with seven school systems for another 6,000 students enrolled in local education agencies.

The Section 6 schools fiscal year 1990 operations and maintenance budget of $193.4 million is a 7 percent increase over fiscal year 1989. Price growth is $10.8 million or 6 percent. Program growth is $1.8 million or 1 percent.

Above school level costs, meaning at the superintendent's level of the school are only 3 percent of the budget. School level accounts for 82 percent and logistical support 15 percent. Total personnel costs support 4,330 full-time equivalent end strength. Logistical costs include an aggressive maintenance and repair program, utility support and logistical support personnel. Included in the maintenance and repair program will be costs for the asbestos abatement program of approximately $1.2 million for our schools. The 1 percent growth will support expanded educational initiatives required by State and Federal mandates such as: preschool handicapped; career ladders for teachers; teacher assistants; and reduced pupil/teacher ratios.

The Section 6 schools provide a quality education comparable to that of the LEA, local education agency. This is an important quality of life program to the military service member.

I thank you for the opportunity of appearing and I will be pleased to answer any questions.

Mr. HUTTO. Thank you, Ms. Duke. I think we will have some questions for you a little later.

We will go now to Dr. Bartley Lagomarsino. Dr. Lagomarsino is with the Department of Defense Dependent Schools.

STATEMENT OF BARTLEY LAGOMARSINO, Ph.D., DEPARTMENT OF DEFENSE DEPENDENTS SCHOOLS; ACCOMPANIED BY: DICK SZOT, CHIEF, FISCAL DIVISION

Mr. LAGOMARSINO. Thank you. I appreciate the opportunity to present this testimony. I would like to submit my prepared testimony for the record as well. Also mention that Mr. Dick Szot, the Chief of our Fiscal Division, is here today in the event that he may be able to answer questions.

Mr. HUTTO. All right, sir. We will include your statement in the record.

Mr. LAGOMARSINO. In relation to my statement, I would like to indicate that the Department of Defense Dependent Schools has the responsibility for providing an educational program basically in the K through 12 grade levels, but we also have preschool programs for the handicapped, as well as one junior college in Panama.

Our obligation is to provide a system that is comparable to public school systems in the United States and at a high quality level.

We have schools in 19 countries around the world. All of our schools are in foreign countries. The system has 153,000 students in it. That would make us equivalent to about the ninth largest school district in the United States, if we were a U.S. school system.

There are some differences, however, between our functions and the functioning of U.S. school systems in that we are so geographically dispersed. We have 11.1 percent of our schools, for example, with fewer than 100 students. I just visited a school on the border between Germany and Denmark which has 36 students in it in which parents and children, and the military personnel, must travel at least 4 hours to the nearest other major location where we have schools.

So, we have a dispersion of our schools that has significance in terms of our operating cost. It does add to transportation cost and to the cost of providing special services for students who are in remote locations on a less efficient basis than would be possible in the more concentrated geographical areas that U.S. school systems serve.

Our budget contains an increase of $79.1 million in 1990 and $62.5 million of that increase is attributable to what we have discussed here as price growth. It also is attributable to foreign currency fluctuation.

Thus, the increase in our budget is approximately $16.6 million. $10.6 of that increase is related to maintenance and repair. We currently have a backlog of 2 years in maintenance and repair projects throughout the Department of Defense Dependent School system. It is our objective to reduce that backlog to 1 year and $10.6 million of our increase is committed to that. The remainder of our increase, approximately between $6.3 and $6.4 million is committed to educational program initiatives.

Among those initiatives, which are listed in my prepared statement, some of the most significant are an increase in the number of handicapped preschool programs that we offer. Children who have learning handicaps benefit enormously from early intervention on the part of schools. Our primary objective is to neutralize those handicaps so that children can enter mainstream classes as early as they possibly can. The research and experience shows that preschool handicap classes accomplish that efficiently.

We also have approximately 6,000 students being served in English as a second language classes but there are 3,000 students that we are not currently serving and our initiative proposes to add English as a second language classes to serve those students.

The one other initiative that I would mention that we regard as very important is the staff development initiative. Like good systems in the United States there is an increasing realization that staff development in a very systematic way must be part of any good school system's program. We have some reservations about whether or not we have provided the kind of training needed for our principals and for other administrators even above the principal level right to and including headquarters personnel. Whether we have provided adequate training to make sure that the quality of instruction in the classroom is up to snuff.

We do not feel that uniformly across the system that our supervisors are currently well enough prepared to do the kind of job that we think is necessary to ensure that classroom instruction is of good quality. That is one of our major initiatives in program growth and improvement.

Accompanying that is an initiative to train teachers, as other good school systems are doing in the United States, in the best research techniques of improving instruction. That is something that needs to parallel the improvement of the quality of our instructional supervision which I have mentioned earlier.

Our data show that our per pupil costs in comparable areas of expense are similar to those of school systems in the United States. As a matter of fact, they have generally been slightly below the national average in terms of per pupil cost.

I think with that I will conclude my statement, and if there are questions or items that we should enter into the record for the information of the committee we will do so.

PREPARED STATEMENT OF BARTLEY LAGOMARSINO, PH.D.

Mr. Chairman and Members of the Committee:

I am Bartley Lagomarsino, Deputy Director for the Department of Defense Dependents Schools.

I am pleased to have the opportunity to appear before you today to present the Operations and Maintenance Program of the Department of Defense Dependents Schools (DoDDS).

DoDDS was established to provide a free public education for dependents of military and DoD civilian personnel stationed overseas. DoDDS has 151,778 students in 271 schools in 19 countries. In addition, DoDDS pays tuition for 2,204 students enrolled in non-DoD schools in overseas areas where DoDDS does not operate schools.

The Department of Defense Dependents Schools (DoDDS) FY 1990 Operations and Maintenance budget of $915,012 million includes price growth of $26.6 million, program growth of $16.6 million and a $35.9 million increase for foreign currency budget rate adjustment.

Our budget request includes 14,010 civilian workyears or a modest increase of 31 workyears over FY 1989. 95.8 percent of DoDDS staff is employed at school level. $605.9 million, or 66.2 percent of the DoDDS budget is represented by salaries, benefits and allowances. This includes a 5.5 percent or $25.9 million teacher pay raise computed in accordance with public Law 86-91 which bases DoDDS teacher salaries on those of urban U.S. school jurisdictions with populations of 100,000 or more.

Repair and maintenance of facilities at $81.4 million (8.6 percent) is the second largest program in DoDDS. The repair and maintenance increase of $22.3 million includes $10.3 million in program growth. As of the end of FY 88, DoDDS backlog of Maintenance and Repair projects exceeded $87 million. The increased funding will reduce the backlog to more acceptable levels. It should be noted that approximately $20 million of the FY 90 Repair and Maintenance budget is earmarked for asbestos abatement in compliance with the Asbestos Hazard Emergency Response Act of 1986.

The third largest program is school bus transportation which is budgeted at $69.5 million or 7.3 percent of the total. An increase of $8.8 million is a direct result of higher contract costs.

The FY 1990 budget includes $6.4 million and 31 workyears for the following program initiatives:

Preschool Handicapped
English as a Second Language
Host Nation Language
Inservice/Staff Development
Drug Abuse Resistance
Textbook Implementation
Drug Free Work Force
Automated Personnel System
Automated Material System

Since FY 1983, the DoDDS per pupil cost (PPC) comparable to U.S. school systems has ranged from 18 percent (1986) to 2.4 percent (1988) below the national average. For FY 1988, DoDDS PPC was $4,106 compared to the national average of $4,209. Excluded from the PPC calculation for DoDDS are employee overseas living allowances and relocation expenses, facility construction, major facility repairs, capital outlays, military support services and dormitory operations. For FY 1990, the DoDDS comparable per pupil cost is $4,816, which we project to be near the national average.

I thank you for the opportunity of appearing before this committee. This concludes my statement. I would be pleased to answer any questions or arrange for the insertion of answers in the record.

Mr. HUTTO. Thank you, Dr. Lagomarsino, for your testimony. We thank all of you for your testimony, and we will have some questions for each of you.

Mr. Flinn, DOD has decided to cancel Reforger in 1989 and is proposing other changes in its exercise schedule. Will you tell us what DOD will save in 1989-1990 by canceling the Reforger, and also what other exercise changes are contained in the 1990-1991 request?

Mr. FLINN. Yes, sir. The change in the Reforger exercise in 1989 is going to result in approximately $19 million savings.

Four million dollars of this amount is going to be used for exercise Caravan Guard which is a smaller corps level exercise that will be conducted in place of Reforger.

The remaining amount of the funds, some $15 million, is going to be used for other JCS exercise initiatives. I do not have the details of those other initiatives. If the committee so desires, I can provide that to you.

Mr. HUTTO. What you're saying is that you are not really cutting money out of the exercise program, you're just shifting it?

Mr. FLINN. It is being redistributed within the exercise program from Reforger to other exercise initiatives; yes, sir. In the process that we will be going through in the next several weeks relative to the 1990-1991 budget we will be taking that into consideration. So there will be some changes in the exercise program relative to what you're currently looking at.

Mr. HUTTO. There have been some who have advocated doing away with or severely reducing exercises, but I take it that you don't have any plan to reduce the exercise.

Mr. FLINN. No, sir.

Mr. HUTTO. It is pointed out to me that in the JCS exercises there is a reduction from $265 million in 1988, there is a slight increase in 1989, but in 1990 there is a reduction of 9.1 percent. Does that mean that some of that $19 million savings would be reflected through your overall reduction; is that right?

Mr. FLINN. The $19 million savings that you are referring to is not yet reflected in the 1990-1991 request that we have before you.

The reduction in the 1990-1991 request is a result of experience with war gaming models that JCS has been testing in the past. There are benefits in 1990 and 1991 which enable a reduction in the level of the exercise program through computer models. So we are requesting less airlift hours in the 1990-1991 program.

These war gaming models enable a reduction in the Reforger program. This reduction is not reflected in the budget that you are now considering.

Mr. HUTTO. A number of defense experts are recommending cuts to readiness if the Gorbachev initiatives can turn you to decreased hostilities with the Soviet Union. However, everyone's definition of readiness seems to be different. In terms of the O&M account, please identify the program areas that you believe contribute directly to readiness and those that are only overhead or headquarters functions.

Mr. FLINN. The direct readiness areas in the budget relate to the flying hour program, naval ship operations programs, strategic force programs, for example, SSBN operations, and missile support requirements. We regard depot maintenance and modernization programs as direct readiness areas.

In the support area I have to divide support into two different categories; general logistic support area which includes transportation, funds required to maintain the pipeline of material going overseas in support of deployed units and indirect support which includes training and education, medical; administration; and base operations, which provide for infrastructure of all DOD facilities.

But in the support area when I refer to supply operations and transportation and logistics I call that an indirect support but it has, I believe, a higher category rating than when I talk about administration or medical in terms of indirect support.

Mr. HUTTO. Thank you, Mr. Flinn. I was trying to recall the exact question that I asked you that you said General McCausland would answer. Was that related to how the stock funds operate? Would you explain that, please, sir.

General MCCAUSLAND. Yes, sir. I think the question was relative to how we generate cash, how the Stock Fund is in fact in the cash business. Let me go quickly to just sort of a quick summary.

What we buy in DLA, in other words what we purchase, in terms of clothing and textiles, medical assistance, general industrial and electronic supplies is financed out of Stock Fund. The money we spend is reimbursed to us when we sell those items to the customers. The customers being the military departments, some civil agencies, and NASA.

My recent experience in the Air Force is that 55 percent of what is used in our depot maintenance account and logistics command comes from DLA. Those items are purchased from us. So those purchases and the money required to do that is reflected in those O&M budgets as military departments.

The way you generate cash for our short cash is a function of when your sales are greater than your purchases and you in fact don't have to replenish, so you in fact have a gap there where you have money that you sold but you haven't bought the item yet. Or in the case of where you pay less than what you have forecasted you would pay. In other words, you get a better price in an item than in fact the standard price is established. When the customer pays the difference, there is a cash generation.

But there is a reverse to that in cases of inflation such as where in fact you have not caught up and then you are cash short. In those cases then it would come to the Congress. In some occasions in the past we had a cash infusion to the stock fund because there was enough money to run the accounts.

But it is run as a business with the sales and purchases trying—the objective is to keep a balance.

Mr. HUTTO. So we appropriate moneys for your stock fund on an annual basis.

General MCCAUSLAND. No, sir.

Mr. HUTTO. You have this revolving fund——

General MCCAUSLAND. You appropriate money, sir, to the military departments and they buy from me, so the money comes from the departments.

Mr. **Hutto**. What we appropriate from the different services, do we appropriate as a stock fund or do they just use that out of their O&M account?

General **McCausland**. I think it is part of their general O&M account. I think that OSD divides it up appropriately, but I think it's part of the O&M.

I need to mention one caveat. There are some minor appropriations, direct appropriations to the stock fund in cases where we have to either prime the pump on new items or buy war reserves. For those types of investments we come to you for money, which are not reflected in sales. But that is a fairly small amount as compared to the total operating account.

Mr. **Hutto**. Could you give us an exact figure or a ball park figure on how much is in the DLA stock fund?

General **McCausland**. In 1988 we closed out with demands of $11 billion and net sales of $10.8 billion. In the first 4 months of fiscal year 1989 including January, our demands were $3.5 billion and our net sales were $3.4, so they are very close.

A predominate part of that is the fuel stock fund which is about 45 percent of the total.

Mr. **Hutto**. Well, that's helpful.

Mr. Machtley, do you have any questions?

Mr. **Machtley**. I do.

Mr. **Hutto**. Let me remind the members we will try to operate our clock here on the 5-minute rule.

Mr. **Machtley**. Relative to our school systems, both the Section 6 and those overseas, do you have any statistical data that shows that we are getting our money's worth, that our students are actually getting a good education?

Mr. **Lagomarsino**. Yes, we do. I can't answer for Section 6, but I think the information may be similar. We can provide you with the data.

With respect to SAT scores, for example, the participation of our students is approximately 60 percent of our senior class taking the SAT. That puts us in the top 10 percent nationally of states as far as participation goes. We think that in itself is positive.

Obviously, if your participation is high and your scores are low within that high participation group, that is not very good. But the fact is that our scores are typically above the average of other states which also have more than 50 percent of their students taking the SAT. So the SAT scores as one kind of measure give us positive news about the system.

We also administer standardized tests, the CTBS standardized tests. Our results on those tests also show us typically above the national averages. I would be glad to submit for the record the detail of those scores. I do have copies of them with me.

[The following information was received for the record:]

DEPARTMENT OF DEFENSE DEPENDENTS SCHOOLS

STUDENT PERFORMANCE ON THE COMPREHENSIVE TESTS OF BASIC SKILLS

April 26, 1989.

Statistics from the 1987-89 Department of Defense Dependents Schools' (DODDS) Systemwide Testing Program indicate that DODDS student performance ranks above the national norms in all tested areas of the Comprehensive Tests of Basic Skills (CTBS). The CTBS results for 1987 and 1988 show significant gains in mathematics in the elementary grades and in science at the secondary level. The attached table from the Annual Test Report 1987-88 provides CTBS results by grade level and skill area for the 2 most recent years of testing. The national norm for all tests is the fiftieth percentile.

TABLE 9—DODDS MEAN PERCENTILE SCORES [1] FOR SUBJECT AREAS BY GRADE

Grade	Reading			Language Arts			Mathematics			Social Studies			Science		
	87	88	Diff	87	88	Diff	87	88	Diff	87	88	Diff	87	88	Diff
K [2]	50	....	....	49	....	....	....	....	....	....	....	....	....	....	....
1	55	55	....	61	61	....	55	58	+3	....	....	....	....	....	....
2	63	64	+1	64	66	+2	63	68	+5	....	....	....	....	....	....
3	58	58	....	64	64	....	62	63	+1	....	....	....	....	....	....
4	66	56	....	70	72	+2	64	65	+1	....	....	....	....	....	....
5	65	64	—1	71	71	....	62	64	+2	....	....	....	....	....	....
6	71	71	....	76	76	....	73	73	....	....	....	....	....	....	....
7	67	67	....	72	72	....	69	69	....	69	69	....	69	70	+1
8	68	67	—1	73	72	—1	65	65	....	72	71	—1	73	73	....
9	62	60	—2	68	68	....	68	68	....	73	73	....	66	67	+1
10	62	62	....	73	71	—2	71	71	....	78	76	—2	73	72	—1
11	60	60	....	68	69	+1	67	67	....	72	72	....	62	62	....

[1] Percentiles based on the mean scale score.

[2] Kindergarten was not included in the 1988 program.

National Norm = 50th Percentile.
See table 8 for number of students tested.

(Excerpt from Department of Defense Dependents Schools Annual Test Report 1987-88)

Mr. MACHTLEY. Mr. Chairman, I raise the issue because we are in a time when education is extremely important. I think the goal should not be to do as well as U.S. schools here stateside, but to get the highest level of students graduating and to have clear documentation that for every one dollar we are spending we are getting one dollars' worth of good education.

My other question is, have we tried in these smaller school sections where we only have 50 or 100 students to just mainstream them into the appropriate country school system?

Mr. LAGOMARSINO. We have done that in some instances where the language would allow it. We do that, for example, in Australia and in Scotland. There are some difficulties with parallels between our system and other systems. Where our system is available there is a strong preference on the part of military personnel and of civilian personnel for participation in a U.S. kind of system. But we have been open to options wherever they might achieve our objectives.

One of our great concerns is the separation of children from their families. We have, for example, rather than transport students to dormitory schools—we operate just three of those in our system—actively tried to work out arrangements where they could attend schools that are closer to home so that the children stay home and live with their parents. We have done that with some of the British counterparts of our Department of Defense school system in some locations.

Mr. MACHTLEY. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Machtley.

Mr. Martin.

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. Flinn, I have two questions. I note in here that your projection for the inflation rate for 1990 is 3.4 and to go down to 3.0 in 1991. How realistic do you think that is? I think probably the Department of Defense is the only one considering those kinds of rates even within the Government.

Mr. **Flinn**. No, sir. The 3.4 and 3.0 rate are rates that are prescribed by the Office of Management and Budget. The Department does not use its own rates. These are either reflective of Government-wide rates prescribed by O&M. The Department does not use rates different from the rest of the Government.

Mr. **Martin**. I will try to write that down somewhere, and we can talk about it next year and find out how close we are going to be to anything like that.

Mr. **Flinn**. Well, it serves of what the actual inflation rate will come in at. But in terms of budgeting we use the prescribed O&M rates.

Mr. **Martin**. In operation and maintenance that inflation rate is probably more sensitive than it is in some other areas of defense budget. That's why I am concerned about a higher inflation rate and the big shortfall.

In a corollary the projections on currency fluctuations, I'm talking about 2.06 Deutsche Mark to the dollar, that was the basis for the planning.

Mr. **Flinn**. Yes, sir.

Mr. **Martin**. What is it now, do you know? It was something like 1.75 when we were over there doing our hotel management work.

Well, in any event it is nowhere near 2.06.

Mr. **Flinn**. No, the rates that we are currently experiencing for the Deutsche Mark is about 1.86.

Mr. **Martin**. What generally is the projection for the Yen, the Deutsche Mark as far as OMB, what are they projecting for the dollar to slide further against those foreign currencies?

Mr. **Flinn**. It is a very volatile area, as you may know. We do not make projections in terms of foreign currencies.

Currently, as of the 22nd of February, which is the latest date I have with me, the Mark was at 1.84 and the Yen was at 126.6.

The budget is predicated on a 1.75 Deutsche Mark note for 1990 and 1991, and the Yen is at 123.5. The 2.06 estimate is the 1989 rate.

Now what I am just indicating there is that the foreign currency rates are improving.

Mr. **Martin**. I know we do have about a half billion dollar transfer we are going to have to make because of that.

Mr. **Flinn**. Yes, sir, in fiscal year 1989.

Mr. **Martin**. Because projections were inaccurate.

Mr. **Flinn**. It is a very volatile situation. When you go back just to the end of January, for example, the Yen was at 129.7 and the Mark was at 1.87. Whereas they were vastly improving at the end of January, it has come down from that point in time.

As compared to the budgeted rates there is a marked improvement in the fiscal years 1990 and 1991.

Mr. **Martin**. Not that I am recommending it, but just think about if all our projections were to be that there was going to be a further slide of the dollar against the Mark or the Yen. Do you have the capacity to purchase those foreign currencies? They're going to have to pay in those foreign currencies, so why not buy them now at favorable rates rather than waiting to exchange it later at the time the bill comes due?

Mr. FLINN. When we purchase services or material overseas, we actually make a payment; we pay it of going rate on the market. There is no way that we can hedge just what the rate is going to be. We don't have the flexibility to do that.

Mr. MARTIN. It's probably a good thing in case mistakes were made. It would be rather embarrassing.

I notice the O&M projection for the Navy is going to increase. The Navy shows an increase of $398 million, about 1.4 percent for the Navy and the Marine Corps. However, we do note that that's a 2.2 percent for the Navy and about an 8.9 percent decrease for the Marine Corps. There is some talk about more emphasis on the Reserves rather than the regular Marine Corps. Do you think that's realistic, a 9 percent drop for the Marine Corps in O&M? That's what they do, they're training readiness.

Mr. FLINN. Yes, the budget reflects a different philosophy, a different training mode for the Marine Corps in 1990-1991. The Marine Corps is transitioning to a light ready concept, a low intensity conflict, and shifting heavy responsibility over to the Reserves. This change enabled the reduction in the budget.

There is a balance, I know it's a rather significant decrease, but the Marine Corps request is balanced and it does maintain the readiness level for the land forces in the Marine Corps.

Mr. MARTIN. I know we went down three rifle regiments last year. I say we, the Marine Corps, excuse me I shouldn't be parochial.

General, in your minor construction, the $200,000 limitation, is there any request or feeling by the Department that that ought to be increased, decreased, or changed in any way?

General MCCAUSLAND. I am familiar with the rule, but I am not really familiar with the feeling within the Department on that issue. Let me, if I could, ask Mr. Cassell if he is familiar with that.

Mr. CASSELL. I don't know of any requested changes.

General MCCAUSLAND. I am not aware of any.

Mr. MARTIN. One other thing for Mr. Lagomarsino. It is right here at my fingertips. Overseas DOD nonappropriated fund and commissary employees are pretty much treated in most respects as full partners with the military and civilian personnel. What is your feeling about the Department of Defense treating those employees the same way as far as dependent education is concerned? We find that in places where we try to contract to get someone to run a commissary or exchange and they take their children to the Philippines or Korea or wherever at considerable expense and then they get bopped real good for tuition. Do you think that is something you could absorb or could we do something to be a little fairer and help us recruit qualified people to do our nonappropriated fund work?

Mr. LAGOMARSINO. I don't think it is something that we could absorb unless we were budgeted for it. It is not an area, however, where I feel sufficiently confident to really give you an answer on this.

I might ask Mr. Szot if he would want to comment.

Mr. SZOT. Sir, we had some requests for consideration of reducing our tuition for a nonappropriated bill, dependence of nonappropriated fund employees. The problem is that would reduce our receipts and therefore increase our request to Congress for additional funding.

We are trying to work it within DOD, but we haven't come to a resolution at this time.

Mr. MARTIN. You say—your name, sir?

Mr. SZOT. Szot.

Mr. MARTIN. This is under discussion.

Mr. SZOT. Yes, sir.

Mr. MARTIN. They realize that there is a problem.

Mr. SZOT. Yes, sir.

Mr. MARTIN. But you don't see any increase in funding requested for that purpose in this budget coming up.

Mr. SZOT. Not in this budget, sir.

Mr. MARTIN. Mr. Flinn, one last question. Do I have any time left?

Mr. HUTTO. Yes, sir, proceed.

Mr. MARTIN. We have been advised that we have a $70 million shortfall here in the funds to pay for shipment of products in the Army and Air Force exchanges overseas. I believe that is a $70 million shortfall. This is over a 50 percent reduction from the fiscal year 1988 level.

Are you aware of this? Funds are going to run out this month, I understand. How is that going to be reconciled to get those products to our exchanges overseas?

Mr. FLINN. Yes, sir. The problem is not one of funds, it is one of legislative ceiling that we have on the amount of funds that we can spend for morale welfare activities. The limitation is imposed by the Appropriations Committees.

The problem stems back to the Army's compilation of budget data for the 1989 amended President's budget, and this was just found out about a month or so ago, in the particular exhibit that the Appropriations Committees use for morale welfare activities the Army erroneously used the wrong transportation rates. Army did not reflect the increase in industrial fund transportation rates. Consequently when the legislative limitation was established the Army program was understated by some $70 million. So it is not a funding problem.

The Army has realigned within the limitation about $12 million to cover the transportation of goods through the end of March. There is in fact a meeting that will be taken later today over in Army with the AAFES people to see how much more of a limitation they can realign to cover the shipment of AAFES goods overseas.

There is also some discussion ongoing in the building of the possibility of sending up some legislative language seeking a relief and an increase in the ceiling that is prescribed for morale welfare activities. All of this is under consideration.

Mr. MARTIN. Is this going to require reprogramming action by this committee, or is there something we can do without going that route?

Mr. **Flinn**. No, it is not a reprogramming action. It is not in terms of reprogramming of funds, Mr. Martin, it is a problem in terms of a legislative cap that has been established in the appropriations process as to how much money we can spend overall for morale welfare activities. The cap is somewhere in excess of $1 billion of which the Army has approximately $500 million. It is for a lot of different areas including the transportation of AAFES goods overseas to the exchanges. As I say, the Army is short some $70 million in that legislative cap or ceiling.

So it is not a problem of the availability of funds, it is in our ability to spend that money for morale and welfare activities and to the extent that the Army reduces their piece of the legislative cap in other areas and puts it against AAFES exchange products and then they have problems in these other areas. But we are trying to work that issue and we may be coming up—the Department may be coming up seeking legislative increase in that ceiling. That decision has not been fully made.

Mr. **Hutto**. Thank you, Mr. Martin.

Dr. Lagomarsino, you have referred to Section 6 schools quite a bit. What are Section 6 schools?

Mr. **Lagomarsino**. I should allow Ms. Duke to respond to that.

Mr. **Hutto**. Sure.

Ms. **Duke**. Section 6 schools are established under Public Law 81-874 in eight States and Puerto Rico. For instance, we have three in the State of Alabama. These are school systems that were left over from the 270 school systems originally established in remote areas.

These schools are supporting the 33,000 students under Public Law 81-874. They provide a beneficial service in readiness in that they are in areas where the local education agency is not able to support the schools.

As you are aware, we were under a transfer issue in the past. However, the Deputy Secretary of Defense forwarded a letter on 30 December saying that he has decided to terminate efforts to transfer the schools to the LEAs.

Mr. **Hutto**. You say there are eight schools?

Ms. **Duke**. There are 18 school systems.

Mr. **Hutto**. 18 school systems under Section 6?

Ms. **Duke**. Yes, sir.

Mr. **Hutto**. They are all CONUS.

Ms. **Duke**. All except Puerto Rico.

Mr. **Hutto**. Perhaps we will get back to this a little bit later. Let me continue with recognizing our members.

Mr. Lancaster, let me warn you that—the timer worked, but it did not work at 5 minutes. I was just going to say green doesn't necessarily mean go. Anyway we will time you up here just to make sure it works.

Mr. Lancaster.

Mr. **Lancaster**. The Chairman notices that I usually ask more questions than my allotted time.

Mr. Martin discussed with you, Mr. Flinn, the difference in your inflation estimates and thought probably it looks now like it is going to be probably 6 or 7 percent rather than the 3 or 3.4 percent that you have budgeted.

But what concerns me about that is not that you have underestimated it, but the fact that you had budgeted it for salary increases for civilian employees only at a 2 percent increase.

Furthermore, it is my understanding that the administration is going to recommend an increase in the premium paid by civilians for health insurance. It appears to me that not only are civilian employees going to be going backwards with regards to inflation, but if they have to pay this additional health care cost then even that 2 percent is going to be wiped out.

I wonder if you care to comment on the status of civilian pay and their continuing decline in parity.

Mr. **Flinn**. Sir, the only comment I can make in that regard is that the civilian pay raise rates that are reflected in the budget are prescribed by the administration. The Department does not project pay raise rates. They are prescribed Government-wide by OMB.

Mr. **Lancaster**. Excuse me, Mr. Flinn, I know the process. I want your opinion as to what this is doing for civilian employees as it relates to readiness. Aren't we in fact continuing to suffer significantly in our efforts to recruit competent civilians and to retain competent civilians, and particularly in the area of procurement where we have Federal employees who are very low paid or high turnover people who don't have significant experience going up against procurement counterparts and the civilian community who are paid many times their salary have much greater experience. Aren't we really going backwards instead of forward with regard to the role between civilian employment and what is paid on the outside.

Mr. **Flinn**. I have heard comments, sir, and read articles but I have no specific knowledge or data with me relative to the decline in the ability to retain or recruit competent employees. I just don't have any information in that area. I will see if that information is available within the Department and provide some statistics to you.

[The following information was received for the record:]

Recruiting and Retaining Competent Employees

The Department has had problems recruiting and retaining professional and technical civilians like acquisition experts, engineers, and health care professionals as well as administrative support personnel. The Department has also experienced a decline in its senior, experienced civilians. Specific statistics are not available at this time. However, the President has directed the Department to complete a Management Review of the June 1986 Packard Commission Report and make recommendations which will include improving the quality of the acquisition work force. These recommendations will address the ways that the Department can recruit, train and retain an efficient work force including acquisition experts. It is anticipated that the Department will submit the Management Review recommendations to the President within the next 45 to 60 days and that the President will use the report as the basis for administrative changes and legislative proposals.

Mr. **Lancaster**. If you would I think that would be helpful as we address this from a readiness perspective.

With regard to projecting exchange rates it appears to me that you are using November of 1988 as a baseline on that. I wonder if you used any sort of economic projections in determining that baseline or was this just a convenient starting point for budgeting purposes.

Mr. **Flinn**. We do not, sir, project foreign currency rates. There is just no way. In the past if you looked at foreign currency rates the way they change. It has been our budgetary practice and policy to use the latest rates experienced on the market at the time that we are developing the budget. November was used as the cutoff point because this approximated—it approached the wrapup point when we completed the budget.

We always wait as long as possible and use that rate which we are currently experiencing. We do not forecast foreign currency rates.

Mr. **Lancaster**. Humanitarian assistance to the Afghan people has been a very strong congressional initiative for the past several years, and I frankly thought that it had strong support in the administration, too. But I am very disappointed to see that there is no money requested for this program in the budget; can you tell us why not?

Mr. **Flinn**. Sir, the funds have been added every year by the Congress. The Department has not requested funds in this area.

Mr. **Lancaster**. Does that indicate a lack of support for this effort on the part of the administration?

Mr. **Flinn**. No, I would not say it indicates a lack of support. This is one of the areas that we are looking at in our budget amendment process to see what level of support we should be reflecting in a revised 1990, 1991 budget. It doesn't indicate a lack of support for that program.

Mr. **Lancaster**. The same is true with our drug interdiction program. Last year about $300 million was added to the budget. However, no funds have been requested for this program in fiscal years 1990-1991. Does this also indicate a lack of support on the part of the administration for the drug program which has such strong congressional support, or again are you just letting Congress do the dirty work and you are requesting your funds in other areas?

Mr. **Flinn**. No, sir. At the time the budget was formulated and finalized, and it is indicated in the report that was forwarded to the Congress, plans in terms of specific programs as to how the Department would utilize the $300 million had not been fully developed.

We did not have a plan finalized relative to 1990 and 1991. So therefore there was no request reflected in the budget.

Mr. **Lancaster**. For every item in the budget that you did make a request for, do you know exactly how that money is going to be spent, or have you requested funds in other areas where details are still to be ironed out but which you feel are a priority? If so, why is that different for drug interdiction?

Mr. **Flinn**. Sir, the funds that we are requesting in the appropriation does have a plan beyond it. We know specifically how it is going to be expended. The drug program was not a finalized concept. As I said, that was addressed in the report.

As a part of the revision process the Department will be assessing the drug interdiction program in 1990 and 1991.

Mr. **Lancaster**. What about your initiatives to keep the cost of CHAMPUS down?

Mr. **Flinn**. There have been several initiatives that the Department has taken in this area. Specifically we have a program entitled Project Restore which is restoring fiscal responsibility for providing medical care to the responsible service. Commencing in Fiscal 1989 we have devised what we call service catchman areas of responsibility for the payment of medical claims cost for CHAMPUS.

For example, in the San Antonio area the Air Force has total responsibility for the payment of CHAMPUS claims cost regardless of whether it's an Air Force, Army, or Navy sponsored dependent that is using the system.

We do have partnership programs where arranging for civilian physicians and providers to treat CHAMPUS patients in our military treatment facilities in order to contain costs.

We did get language which provides us to use congressional language, legislation, to use CHAMPUS fandangos to conduct demonstration projects in the military treatment facilities. To date there have been 21 projects approved by Dr. Mayer, the ASD for medical programs.

We have implemented the diagnostic related group system of charging, a fixed determined cost for a procedure.

We are also using the Medicare economic index in terms of a maximum allowable amount payable for particular procedures.

The CHAMPUS reform initiative was implemented in August 1 of 1988 in California and Hawaii, and we expect that to result in significant savings. That will cover over 800,000 beneficiaries in those two States.

So we are taking actions to try to retain costs. We are also using contract care in various areas to try to constrain costs.

Mr. LANCASTER. Mr. Chairman, the light turned red and then green and then it went out completely. Do you want to tell me what all that means?

Mr. HUTTO. Mr. Lancaster, we have to train a clock operator, that's what.

Mr. LANCASTER. Could I have one additional question for Mr. Flinn and then one each to the other two members of the panel.

Mr. HUTTO. You mean for the record? No, we'll get another round of questioning.

Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman. Mr. Flinn, Ms. Duke, gentlemen.

The 1990–1991 request contains $1 billion for base closures. What specifically will these funds be used for in 1990 and 1991? Are they in the O&M account?

Mr. FLINN. Yes, sir, they are requested in the O&M title, and that was a decision we made as we put the budget together. These funds will pay for advanced lead requirements in terms of military construction projects that will be incurred as a result of either consolidation or closure of a base and moving certain functions to other areas.

It will pay for relocational allowances and all costs incident to that entire process.

Mr. RAY. I assume there will be some military construction projects, at least that's on the drawing board, that the money is authorized and maybe appropriated that we won't perceive for child care or something of that nature. Where do those funds go if we don't spend them?

Mr. **Flinn**. Yes, sir, I do not have an estimate with me today. Those funds will be used to cover the costs incurred in 1989. No fiscal year 1989 funds are budgeted specifically for relocation or base closure costs. Those moneys will be used for the design work that will have to be incurred in the design.

Mr. **Ray**. You are familiar with the fact that we have some environmental problems on many of the bases that we might close, and I wondered how you planned to take care of the costs of the environmental problems and if the base closure account would pay for those costs?

Mr. **Flinn**. Yes, sir, it would. It would be funded from the fiscal year 1990, 1991 base closure account.

Mr. **Ray**. So some of those environmental problems will be substantial into the millions of dollars, and you think there will be adequate funds in the base closure account to do that?

Mr. **Flinn**. Yes, sir, there will be substantial cost. At this time I am not prepared to say that the $500 million will be sufficient. We don't have a good handle on that just yet.

Mr. **Ray**. The $500 million would be coming from where? Where is the $500 million? Is that in the base closure account?

Mr. **Flinn**. Yes, the base closure account.

Mr. **Ray**. I see. I just want to be sure you are not thinking about the DERA account.

Mr. **Flinn**. No, sir.

Mr. **Ray**. Ms. Duke, on the Section 6 schools, as I recall the Department of Education financed that Section 6 school for many years and then all of a sudden they decided that since they were military schools they ought not be financing the schools and then called on the DOD to take care of that bill.

DOD then began to rebel against that for a while and that brought about the controversy of 2, 3, 4 years of not knowing whether we are going to keep them as they were or transfer them to States, counties, or whatever.

Right now do you think that controversy is closed, do we have to worry about it for the future, is it going to open itself back up in another year or two, or can we forget about it?

Ms. **Duke**. I believe that DOD has met Congress' guidance to study the feasibility of transferring the educational responsibility for the students. There are currently no incentives to encourage the States to absorb our students.

Mr. **Ray**. So we think those people can rest easy that they are not going to have to be transferred and the schools can rest easy, the counties and States won't have to take them. We think we can put that to rest.

Ms. **Duke**. Unless the states want to offer to take them.

Mr. **Ray**. I don't think they want to do that.

Mr. Lagomarsino, the members of this committee recently were in Izmir, Turkey, and one thing that came to our attention there was the very bad school situation. For the few children—we have a small contingency there, but I guess there are about 40 children, I don't know the exact number. But they were concerned in wanting to move from there, these parents with children, simply because of the status of the school building. For instance, there is a very, very bad environmental situation there.

I just wondered if you could maybe have someone look into that particular situation over there and see if there is any relief to be given to them and let us know back.

Mr. **Lagomarsino.** I will.

[The attached letter to the Honorable Richard Ray was sent to him in response to his question:]

Department of Defense,
Office of Dependents Schools,
Alexandria, VA, April 3, 1989.

Hon. Richard Ray,
House of Representatives, Washington, DC.

Dear Congressman Ray: I am responding to an inquiry you made of the Department of Defense Dependents Schools (DODDS) regarding the condition of school facilities in Izmir, Turkey. The inquiry came as part of the hearing on Overview of the Defense-wide O&M Accounts held Tuesday, February 28, 1989, by the Subcommittee on Readiness, Committee on Armed Services.

DODDS has long viewed the existing facilities at Izmir as inadequate. For at least the past 7 years we have sought more appropriate facilities without success. We have examined several alternative sites but rejected them because they were less satisfactory than the buildings we now lease.

Those buildings are two converted tobacco warehouses in downtown Izmir, which have been significantly remodeled since they were first occupied in 1965. During the past 5 years DODDS has spent approximately half a million dollars in classroom improvements, air-conditioning, upgrading the electrical system, renovating toilets, and painting. This year we will spend $275,000 to maintain and upgrade the facilities. We estimate that we will spend an additional $492,000 for maintenance and upgrades over the next 4 years.

The long term solution, however, lies in the implementation of an Air Force project called "Izmir 95." This plan requires the Government of Turkey to make land available to the U.S. Government for the construction of a permanent installation, which will consolidate various leased facilities in the Izmir area, including the DODDS school. If "Izmir 95" can be realized, DODDS plans to replace this facility in the fiscal year 1992 or 1993 MilCon program.

"Izmir 95" is scheduled to be presented to the Turkish General Staff in April 1989. In the event that the "Izmir 95" initiative is not approved, a build-to-lease request for proposal will be issued in order to replace the existing Izmir school. The currently planned projects for Izmir in the outyears will be canceled at the appropriate time if either the MilCon or the build-to-lease option is executed.

We recognize the limitations of the current facilities and while we have made significant efforts to improve them, we are committed to constructing a new school as the long term solution to the needs of children in DODDS' Izmir school.

Thank you for your interest in DODDS. If we can be of further service in furnishing you information about this or other questions you may have regarding DODDS, please call on us.

Sincerely,

Bartley A. Lagomarsino,
Deputy Director.

Mr. **Ray.** Let's see, Mr. Chairman, if I might have another question or two.

General McCausland, looking at your table of budget authority estimates on page seven, the $33.5 million figure listed on fiscal year 1989 for the stockpile transaction fund, it is for research grants to various universities that were funded by direct appropriations last year.

Can you explain what you plan to offer to administer these funds? What reports you are getting from these projects? What oversight procedures you have set up for them? Do you anticipate additional funds being appropriated for research projects in other states?

General **McCausland**. I would say, sir, that I would have to get that together for you and submit that for the record, but I think that information is available.

[The following information was received for the record:]

Stockpile Transaction Fund

The following is an overview of the administration of our grants.

Congress passes a public law which authorizes funding for the grants through the National Defense Stockpile Transaction Fund. The grants are administered by the Defense Logistics Agency, Directorate of Stockpile Management. After passage of the public law, DLA forwards to the prospective recipient the SF 424, the Federal assistance grant application and relevant OMB circulars and regulations pertaining to the award the administration of Federal grants. The candidate is advised that their grant documentation must include: a breakdown of the total anticipated funding for the project (State/local/private funding); a proposed overall budget for the project; a narrative of the projected undertaking; a tentative work schedule; environmental reports and historical preservation issues associated with the project (required only for construction grants); and an assurance that it will comply with the regulations, policies, guidelines and requirements set forth in the grant. The recipient is informed that advance funding to defray costs associated with the planning and development of the required grant application is available.

DLA works closely with the prospective grant recipients to complete SF 424 and reviews draft copies of the form to ensure that the data is presented in an acceptable format.

After DLA executes the SF 424, the recipients can draw against the balance of grant funds in a cost reimbursement method. Invoices from the recipients, accompanied by supporting documentation from contractors, are reviewed, certified and processed for payment. Invoices are monitored to ensure that the costs are appropriate and comply with the overall budget for the project.

Once advance funds are disbursed, the grant recipients are obligated to comply with OMB Circular A-110, which requires that all advances of Federal funds be maintained interest-bearing accounts. Accordingly, any accrued interest must be returned to the funding organization on a quarterly basis. In addition, with the advancement of funds, the recipients are required to file quarterly two reports on the status of the funding, the SF 272, Federal Cast Transactions Report and the SF 269, Financial Status Report.

Site visits are made to the universities to resolve any unusual problems that may surface and to visually inspect the progress made on the grant.

DLA handles the administration of congressionally approved grants. We do not request funding, nor do we plan to in the future.

Mr. **Ray**. I have a follow-up question. Have you given any thought about how we will handle a request from various states for funds to establish schools to study minerals and strategic materials such as is included in the Appropriations Act for this year?

General **McCausland**. I think we can also address that, sir.

[The following information was received for the record:]

Study of Minerals and Strategic Materials

DLA only administers congressionally approved grants. We, therefore, have not studied how Congress should handle requests from various States for funds to establish schools to study minerals and strategic materials.

Mr. **Ray**. Let me call your attention to a colloquy that the Chairman of the Overall Committee, Mr. Aspin, had with the Chairman of the Appropriations Panel, Mr. Chappell, where Mr. Aspin said he was extremely concerned about a continuing trend to earmark funds for specific universities in the Appropriations Bill. The authorization conferees were so concerned about this matter that they initiated in the past legislation prohibiting the Secretary of Defense from awarding the contract to a college or university for performance on research and development or for construction of any research facility unless the contract was made using competitive procedures.

Now Mr. Aspin also told Mr. Chappell on September 30, 1988 that it was not his intent to hold hearings this year to see if we could provide some additional controls over this process, but that he would hope that the Department of Defense would examine each of these set asides and to only consider for contract those university programs that past a peer review within the competitive process.

I would like to put that in the record and ask you if you have any comments.

General McCAUSLAND. No, sir, I don't support that.

Mr. RAY. Fine. I am hoping that we can eventually correct that situation through authorization and appropriation procedures.

One final question, Mr. Chairman, if I could just have one more.

Mr. HUTTO. Sure.

Mr. RAY. Mr. Flinn, Secretary Carlucci commissioned a study of the Unified and Specified Command Headquarters that was published in February 1988. The study recommended that over 7,000 positions be eliminated. What are your recommendations regarding this, and will they be implemented and will they translate into 1990 and 1991 O&M savings?

Mr. FLINN. Yes, sir. The budget reflects a 3,000 reduction in military and civilian spaces related to the IG study on Unified and Specified Commands. The reduction is reflected in the budget phased over 3 years building to an exact reduction of 2,990 people in fiscal year 1991.

These reductions are in the Unified and Specified Command Headquarters organizations. However, the end strength has been given back to the services to provide for the deficiencies in personnel manning requirements in medical and combat units. So that overall the budget does not reflect the 2,990 reduction. But the Unified Commands are down by that amount.

Now, in the restoration of the military bill it's back to the services for medical and combat units. There has been a specific reduction in office abilities. There is a greater return back to the services on the enlisted side and a reduction on officer spaces. So the budget does reflect that adjustment.

Mr. RAY. Thank you, sir.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Ray.

Dr. Lagomarsino, a number of years ago, must have been about 8 or 9 years ago, when we passed the legislation creating the Department of Education, that bill mandated that DOD schools come under the Department of Education. I supported the Department of Education but not necessarily that part of it.

Indeed, it has turned out that that didn't work. Was the transfer tried or ever implemented at all?

Mr. LAGOMARSINO. I am relatively new. I don't believe it was.

Mr. SZOT. Sir, it was never tried.

Mr. HUTTO. It never was implemented. I think now, if I am not mistaken, we did change the law to keep them under DOD, which makes a lot of sense.

Ms. Duke, would you elaborate a little bit further on the Section 6 schools? These are isolated-type situations?

Ms. DUKE. They were established initially in remote areas, but now there are circumstances that vary from location to location why they have been retained in DOD.

The Section 6 schools have established school boards that are comparable to the local education agencies. The school boards hire the superintendent of the schools, personnel, and oversee the operations of the schools. They are operated comparable to the schools outside the gate.

The purpose obviously is just to support the units there. I guess I am not perceiving the question.

Mr. HUTTO. Are they all located on base, all the schools?

Ms. DUKE. Yes, sir, they are. That is a requirement for attendance.

Mr. HUTTO. Fully funded by DOD.

Ms. DUKE. By DOD, yes, sir.

Mr. HUTTO. Now, some schools—I know in my District for example that the schools have been turned over to the local school board and are still operating on base but they are——

Ms. DUKE. Section 10.

Mr. HUTTO. They are Section 10. But I don't believe they get all their funding from DOD though.

Ms. DUKE. The schools on bases are not funded at all by DOD unless they are a special arrangement.

Mr. HUTTO. No. Some of those that are operated by the local authorities, the schools are located on base, they are part of the local school system, are they completely funded by DOD?

Ms. DUKE. The ones that are funded by the local education agencies by State and local fund-raising authorities are not funded by DOD at all. We only have six arrangements where the local—I'm sorry, seven now where the local agencies are funded by DOD for operating schools on the base. For instance, the school at Fort Hood is not a Section 6 school nor are any DOD funds received.

Mr. HUTTO. But it is off base?

Ms. DUKE. No, they are on base.

Mr. HUTTO. On base.

Ms. DUKE. Yes.

Mr. HUTTO. How many of those schools are in there, do you know?

Ms. DUKE. I do not know how many. I could provide that later.

[The following information was received for the record:]

LISTING OF INSTALLATIONS WITH SCHOOL FACILITIES OPERATED BY LOCAL EDUCATION AGENCY

Military service	State	Installation	Location	Number of schools
USA	Alaska	Fort Richardson	Anchorage	3
USA	......do	Fort Wainwright	Fairbanks	5
USAF	......do	Eielson AFB	......do	4
USAF	......do	Elmendorf	Anchorage	4
USN	......do	Naval Air Sta	Adak	2
USA	......do	Fort Greely	Delta Junction	1
USA	Arizona	Fort Huachuca	Sierra Vista	3

LISTING OF INSTALLATIONS WITH SCHOOL FACILITIES OPERATED BY LOCAL EDUCATION AGENCY—Continued

Military service	State	Installation	Location	Number of schools
USAF	do	Williams AFB	Maricopa Co	1
USA	do	Yuma Provng Grd	Yuma	1
USAF	California	Edwards AFB	Boron	2
USAF	do	Travis AFB	Fairfield	1
USAF	do	Mather AFB	Rancho Cordova	1
USN	do	Nav St Mare Is	Vallejo	1
USA	do	Fort Irwin	Silver Valley	1
USA	do	Fort Ord	Marina	6
USAF	do	Mather AFB	Racho Cordova	1
USMC	do	Camp Pendleton	Oceanside	5
USN	do	Navsta Trea Isl	San Francisco	1
USA	Colorado	Fort Carson	Col Springs	3
USA	Hawaii	Schofield Brks	Wahiawa	1
USA	do	USASC Hi	Dahu	2
USMC	do	Kaneohe Bay	MCAS Kaneohe	1
USAF	Idaho	Mt Home AFB	Mountain Home	3
USA	Kansas	Fort Leavenworth	Leavenworth	4
USA	do	Fort Riley	Geary Co	6
USA	Louisiana	Fort Polk	Leesville	2
USA	Massachusetts	Fort Devens	Ayer	1
USAF	Maine	Loring AFB	Limestone	1
USAF	Michigan	K.I. Sawyer AFB	Marquette	2
USA	Missouri	Fort Leonard Wood	Waynesville	6
USAF	do	Whiteman AFB	Knob Noster	1
USAF	North Dakota	Grand Forks AFB	Grand Forks	2
USAF	do	Minot AFB	Minot	3
USAF	New Hampshire	Pease AFB	Portsmouth	2
USA	New Jersey	Fort Dix	Pemberton	1
USAF	do	McGuire AFB	Wrightstown	4
USA	New Mexico	Wht Sands Misle	Wh Sands Miss	1
USAF	New York	Plattsburgh AFB	Plattsburgh	2
USA	Oklahoma	Fort Sill	Lawton	2
USAF	Texas	Sheppard AFB	Wichita Falls	1
USA	do	Fort Hood	Killeen	4
USA	do	Fort Sam Houston	San Antonio	2
USAF	do	Randolph AFB	Universal City	2
USAF	do	Lackland AFB	San Antonio	1
USA	Virginia	Fort Belvoir	Fort Belvoir	3
USA	Washington	Fort Lewis	Fort Lewis	5
USAF	do	McChord AFB	Tacoma	2
USAF	do	Fairchild AFB	Spokane	1
Total				114

Mr. **Hutto**. Well, many areas are impacted by children whose parents are in the military but they receive—the school systems received impact funds, not enough but some. It seems to me there might be some inequities there. That is what I was trying to find out about.

Ms. **Duke**. The impact funds have been reduced if that is what you are referring to.

Mr. **Hutto**. Especially category B.

Mr. Lancaster, you are on again.

Mr. **Lancaster**. Thank you.

One last question for Mr. Flinn before I go to the others.

Over the past few years we have seen a trend in not investing in capital programs, in fact not even purchasing some planes and other equipment that DOD uses but rather to lease those. Therefore these items come under O&M instead of under procurement.

Can you tell us something about this trend, if whether or not that is continuing, and if so, just how much of the O&M budget is tied up in leasing facilities and equipment that in past years could not very well have been purchased in outside the O&M budget?

Mr. FLINN. Sir, I have to provide that for the record. I do not have any information with me in terms of leased equipment or leased facilities.

If I understand your question it's in terms in identification of not only, for example, aircraft where we would lease but where we are leasing actually facilities, all encompassing.

[The following information was received for the record:]

Mr. HUTTO. Over the last few years there has been a trend not to invest in some capital programs such as construction of facilities, and the purchase of some planes and/or some ships. Instead the Department of Defense and Agencies are entering in leases, thereby using O&M funds.

Can you tell us about this trend and how much of the O&M budget is tied up in these kinds of activities?

Mr. FLINN. Under Section 2809 of Title 10, the Department can enter into contracts for the construction, management, and operation of facilities on or near a military installation, if certain criteria are met. In addition, under Section 2394, the Department can enter into contracts for the provision and operation of energy producing facilities. However, these provisions have not been widely used, and the amount of O&M funds used for these activities is not identifiable without involving field activities in the manual compilation of data.

There does not appear to be a trend toward increased leasing of ships and planes. The Navy has traditionally leased ships that have commercial application and that are available on the economy. These costs are paid by the Navy Industrial Fund and not directly by O&M. The Navy was leasing KFIR aircraft from Israel, but the leases are discontinued in fiscal year 1989. The Air Force was leasing C-21 and C-12 aircraft. However, this practice has been discontinued.

The Department has also leased satellite communications using O&M funds. However, there are no leased communications funds in fiscal year 1989 or fiscal year 1990 as the lease was prepaid using fiscal year 1987 funds. In fiscal year 1991, $52.8 million is budgeted for leased communication satellites. The Department will begin the purchase of these satellites in fiscal year 1992.

Mr. LANCASTER. What is the impact on O&M budgets by our leasing facilities and equipment that in the years past have actually been purchased? Aren't we eating up an awful lot of our O&M budget by sort of a backdoor approach to not purchasing?

Mr. FLINN. There has been an initiative within the Department to purchase rather than lease where it is more economical to do so. The extent of how much we are continuing to spend on lease arrangements in the O&M appropriations I am just not aware of. I will have to get that information.

Mr. LANCASTER. Could you do that.

Mr. FLINN. I certainly will.

[The following information was received for the record:]

Department of Defense Instruction No. 7041.3 of October 18, 1972 provides detailed instruction for analyses to provide a basis for decisions as to lease or purchase. A copy of that instruction has been retained in the committee files.

Mr. HUTTO. If you would yield just a moment, Mr. Lancaster, on that point. Is there any kind of directive that there must be a comparison in the long run on whether to lease or to purchase?

Mr. **Flinn**. Yes, sir. There are guidelines published by the OSD in this area, and I can provide those to you. I am just not familiar with the particular subject.

Mr. **Hutto**. Thank you, Mr. Lancaster, do you have other questions?

Mr. **Lancaster**. Yes, I do have some other questions.

General McCausland, the EEC has indicated that they are going to ban the import of America beef because they cannot have assurances that that beef has not used hormones in its growth. As a result, if negotiations break down between the EEC and our Department of Agriculture, it appears to me that you are not going to be able to purchase European beef for our commissaries because there will be a corresponding ban on purchase of European beef.

What impact will this have on our cost, and what is this going to mean for our men and women stationed in Europe?

General **McCausland**. Well, there will be a definite cost. It will be reflected in the price that the folks pay in the commissaries for the beef that they purchase for their own use.

There isn't a price tag—there has been an estimate. I think I have seen an estimate of what that price tag is.

Mr. **Lancaster**. Will all of that be passed on to the commissary customer?

General **McCausland**. That is the system, yes, sir. General Vorhees will be here tomorrow to appear before the subcommittee and I think that is one of the issues that he was asked to talk to. So I think he can probably go into some more detail on that particular subject.

Mr. **Lancaster**. I have one last question. Apparently there has been a concern in this committee that stretches all the way back to 1984 about the long time it takes to get products shipped to Europe. In 1984 this committee was alarmed that it was taking 120 days, but just a few months ago we heard from commissary commanders and they told us that it was still taking 120 days. So apparently not much progress is being made.

Is DLA doing anything to shorten this transportation time for products to Europe?

General **McCausland**. Yes, sir, a lot is being done. I recently talked to one of the commissary commanders who did express some pleasure with the fact that we have shortened some of those transportation times. We still have some particular areas that we are having trouble with like Turkey, for example. As a matter of fact, I asked General Voorhees to get with him Monday of this week to get our staffs together to find out what those issues are on Turkey.

I know there are things underway. As you know, I have only been there a couple of months, so I am not that familiar with them as yet. But I know that is a current issue. I know we are concerned about it. I know we are going to do something about trying to shorten that time. Time is money, and we need to do that.

Mr. **Lancaster**. This question is for both Mr. Lagomarsino and Ms. Duke.

We see in the press all the time stories about our public schools having problems with drugs, absenteeism, assaults, and other crimes. I wonder if you would both comment on similar problems, if they exist, in the Section 6 and the overseas dependent schools.

Mr. LAGOMARSINO. Yes. We do have concern about problems there. The problem seems to be less with drugs than it does with alcohol abuse, particularly in those countries where legal ages for alcohol consumption are lower than they are in the United States.

In our programs of education we are placing increased emphasis on that aspect of substance abuse. We have a program called the DARE program which originated with the Los Angeles Police Department and which now has the cooperation of the services in having military police enter our schools to change student attitudes about substance abuse, particularly about drug abuse, but any kind of substance abuse really.

Our findings there are that, that program in its first year of implementation has been successful. Studies that we had done I believe by the University of Michigan with respect to drug abuse among our students are showing that in general our students are behaving more favorably and in a more positive way than the students on the average in the United States.

Mr. LANCASTER. How about crime, assaults, and larcenies, that sort of thing?

Mr. LAGOMARSINO. I don't know that we have data on that. My field knowledge of what is going on in the schools in those areas would lead me to say that that is significantly—that the occurrences of those things are significantly fewer in DODDS than they are in school systems in the United States.

Mr. LANCASTER. Ms. Duke.

Ms. DUKE. I have to support the feeling that the parental standards in the military are very high and the cooperation between the parents and the school system is very good.

We have also adopted the DARE program. If you ask that question to the school superintendents regarding the problems they have—the worse we have had recently in Section 6 has been vandalism. So we are looking into security for the schools.

But the occurrence of drugs has not been a big issue with Section 6 schools.

Mr. HUTTO. Mr. Lancaster, our sun dial says your time is up.

Mr. LANCASTER. Can I ask one question about Public Law 81-874?

Mr. HUTTO. Yes.

Mr. LANCASTER. Has that been reduced even more in this budget than last year, or is it at the same level of what is the situation with impact funds?

Ms. DUKE. The funding under Section 6 of Public Law 81-874 are DOD funds and we are at the same level we were last year.

Mr. LANCASTER. So there is no recommended decrease for this year.

Ms. DUKE. No, sir.

Mr. LANCASTER. But is there no increase for inflation either?

Ms. DUKE. We had a price growth that we are supporting at 6 percent because teacher pay raises are included. Teacher pay is based on the comparability statistics and analysis that I do that is about what we average per year. So, if we are not 6 percent price growth then we do experience program growth. The comptroller has supported us and the DRB with our price.

Mr. LANCASTER. Thank you.

Mr. HUTTO. Mr. Flinn, in answer to Mr. Ray's question I am not completely clear on the reduction under the Vander Schaaf study of the 3,000 that supposedly has been agreed to in the reduction or shifting. How many are civilians?

Mr. FLINN. The total reduction is 2,990 of which 1,074 are civilians and 1,916 are military.

Mr. HUTTO. Our staff member Mr. Holton has a couple of questions.

Mr. HOLTON. General McCausland, I see nothing in your budget estimates for the operation of the national defense stockpile. You are using some O&M moneys for transportation and warehousing, are you not?

General MCCAUSLAND. Yes, sir. The stockpile has $32 million in 1990 and $33 million in 1991.

Mr. HOLTON. So these are additional moneys that you had to come up with?

General MCCAUSLAND. Well, these are moneys that would have appeared, I assume in the GSA budget under prior years. With the transfer of the money through the OMB process, they would appear in our budget.

Mr. HOLTON. They appear in your budget, but your budget is also going down by over $100 million.

General MCCAUSLAND. That's correct.

Mr. HOLTON. In 1991. I just love to meet an optimist.

Could you go through the rationale again for how you are going to absorb not only the $30 million but the $100 million reduction?

General MCCAUSLAND. Well, of course, the 30 would be a transfer in, so that would be a plus in.

Mr. HOLTON. You have to add that into the—wouldn't you have to add it on to the 100?

General MCCAUSLAND. Yes, sir. The feeling is in the agency is that the workload will be level. I think Mr. Flinn's testimony earlier the fact where the Army was going to be slightly down and the Air Force and Navy projected a fairly level program.

We feel that we can obtain productivity increases and we have a history of productivity increases, which probably leads the Department. We feel that in the case of 1990 we can, in fact, draw down our budget because of level workload and productivity increases.

Mr. HOLTON. Are we in fact with your reprogramming of $100 million in 1989 just prepaying on 1990? Perhaps the decrease isn't quite as dramatic as it looks.

General MCCAUSLAND. I can't really answer that. I don't think that was the thought process that went through to build that budget, sir.

Mr. HOLTON. If you don't get the reprogram of $105 million does that mean the reduction is going to be over $200 million for 1990.

General MCCAUSLAND. Say that again, please.

Mr. HOLTON. If you don't get the reprogramming in 1989 of $105 million, then your total reductions through 1990 will be over $200 million.

General MCCAUSLAND. Well, that's not correct. The savings that we project in 1990 and 1991 are dependent upon, as I mentioned in my statement, getting the reprogramming action. So without the program action we would have to readdress what is going to happen in 1990.

Mr. HOLTON. What specific things in the program in action would affect your 1990 productivity?

General MCCAUSLAND. Well, let me talk to those things. We have $38 million in real property maintenance; $21 million in operating equipment; $13 million in computer programs. These are various things that we think that we can invest in now and get the productivity payback in 1990.

Mr. HOLTON. Thank you, gentlemen. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you.

One question regarding the renovation or building of schools. Does all of that come under military construction, or is it done with maintenance funding or what?

Mr. LAGOMARSINO. Well, repair is done with maintenance in some instances. But major—there are some major projects under MILCON that have to do with replacing unsuitable facilities, if that is to the point.

Mr. HUTTO. But if it's a new school, of course it has to come under military construction.

Mr. LAGOMARSINO. Yes.

Mr. HUTTO. Mr. Cofer has a question.

Mr. COFER. I have a question for Dr. Lagomarsino. Recently the staff had an opportunity to visit Europe, and the command expressed serious problems with the exceptional child or severely handicapped child program, the cost associated with this program, and the screening that takes place. As a matter of fact, the staff was informed that the general in Europe was saying that he may not accept any new military people being assigned there because of the severe problems associated with this exceptional child program.

Could you tell us what that is and what problems have we had along this line, and also cover the screening activities and what do we see taking place to eliminate this problem?

Mr. LAGOMARSINO. Well, I don't know that I can answer all of that competently. I will answer some of it now and if I don't touch on some elements of it we will furnish additional information for the record.

I am not aware that once on the site that our screening for exceptional children who might qualify for special education programs is deficient. On the contrary, I think our screening is up to snuff and it has been praised not only by the accrediting association which we rely on to examine our schools and to make evaluations of the adequacy of our programs, that is the North Central Association of Schools and Colleges, but also in the findings of other investigative bodies that have looked at the special education program. One of the concerns that we have with the assigning of personnel to locations which do not have adequate medical support facilities is being addressed by our working jointly with representatives of the military services to prepare memoranda, and I believe these memoranda are prepared now. I don't know if they have been issued yet. But to prepare memoranda to instruct the personnel departments of military to try to pinpoint assignments for families with children who may have exceptional needs so that they go to locations where the medical backup that they need in addition to the educational services that they need in our schools is available.

Apparently there is difficulty with that. The costs of extending services, sometimes even in our schools are very high. Because if we have one child in a fairly remote location who is entitled to special education services we have to deliver those services, and they are at a much higher pupil cost than they would be if that child were in a location where there are other children who needed similar services where we can more efficiently use our personnel.

It is a matter that has our strong attention, and I believe has the attention of the military services from our experience in trying to work with them on the issue of pinpointing assignments of personnel.

Am I responding?

Mr. COFER. Yes. My discussions were that this was creating such problems of assignments in Europe that they had to have notice that the family had an exceptional child. Then where do we put that child. They all can't go to Heidelberg, or they all can't go to Frankfurt. There is a big problem. I just wanted to get it on the record.

Mr. LAGOMARSINO. I think it is true that there are serious problems in that area. I think we are sensitive to them. I believe the services are. My impression is that the services are cooperative in trying to address them, although that doesn't reduce the magnitude of the problem.

Mr. COFER. Thank you.

Mr. HUTTO. Dr. West.

Mr. WEST. Thank you, Mr. Chairman.

On page four of your statement, Mr. Flinn, you talk about the problem created by having the foreign currency fluctuation account undercapitalized and that you have to transfer money into that account to try to offset the currency fluctuations.

One of the things you are requesting is a legislative proposal to allow the transfer of unobligated balances from its procurement account to the foreign currency fluctuation account. That is an issue that Congress addressed last year and essentially did not go along with it.

The primary reason, as I understand it, was the indication to us that CBO would score these as current year outlays, and that, therefore, even if we gave you the authority as long as you were managing the outlays, it didn't look like it was very likely that you could actually use this authority very effectively.

In the case of the $580 million that was being transferred in 1989 for this purpose, if you had had this authority granted you as part of the 1989 budget request, could you have actually controlled outlays to the extent that you could have utilized the $580 million from expiring balances and procurement or would that have caused the outlay problem that many on the Hill perceive to be the case?

Mr. FLINN. You are correct in terms of that authority being an outlay driven in the concern of CBO. I really can't say that we would have been able to manage outlays if we had had that authority or we could manage outlays in 1989 to accommodate this requirement and stay within the overall outlay situation. I really can't comment on that at this time. You are correct in that CBO viewed it as an outlay problem in terms of bringing prior year procurement funds forward.

Mr. WEST. Could you provide for the record some analysis as to how you might have been able to use that authority last year within the context of the $580 million. Give some idea as to whether or not how much relief you could actually expect to receive by this legislative proposal.

Mr. HUTTO. If you would provide that for the record.

Mr. FLINN. Yes.

[The following information was received for the record:]

The level of funds in the Foreign Currency Fluctuations appropriation has been depleted in recent years due to unfavorable rate adjustments and declining expired balances in the various O&M appropriations. Current legislation allows only the transfer of O&M expired funds into the foreign currency account.

If funds are not sufficient in the Foreign Currency Fluctuation transfer appropriation to cover adverse variances then either current O&M or procurement programs have to be reduced. Either action increases outlays by moving funds from slower spending programs. The outlay effect however, would be somewhat greater using the additional authority requested namely; transfer of procurement expired balances.

The Department is not able to manage oversight of outlays at the numerous budget program levels due to the number of individual or organizational units that impact the requisition and disbursement process. The Department does review and attempt to maintain a balance within any outlay targets established by effecting changes at the overall title level within each military component. However, often times unforeseen requirements may cause the Department to exceed such targets. The important aspect of this legislation is that it enables the Department to accommodate unfavorable foreign currency rate variances (must pay bills) without having to take funds from programs requested by Defense and approved by the Congress.

Mr. HUTTO. Thank you. This is not necessarily aimed at those of you at the witness table, but the subcommittee today will receive testimony from at least six witnesses. Three of those did not submit their statements to the subcommittee until this morning and one was received late yesterday. The committee rules are quite clear on this, statements will be received 48 hours in advance of the hearing. This committee cannot operate with this constant lateness in submitting statements. So I want to put all of the liaison officers on notice that if statements are not received on time in the future the Chair would give serious consideration to not allowing the witnesses to present their testimony.

We will probably have more questions that we would like for you to answer for the record.

[The following questions were submitted to be answered for the record:]

Unified And Specified Command Headquarters Reductions

Question: Secretary Carlucci Commissioned a study of the Unified and Specified Command Headquarters that was published in February 1988. The study team recommended that over 7,000 positions be eliminated. Please tell us which recommendations were implemented and how they translate into 1990/91 O&M savings?

Mr. Flinn: The report on the review of the Unified and Specified Commands recommended a total reduction of 7,309 personnel in those headquarters and related support organizations. Secretary Carlucci conveyed his decision on that recommendation in a memorandum to the Chairman of the Joint Chiefs of Staff dated September 26, 1988. His memorandum directed the accomplishment of a 3,000 personnel reduction. The Secretary provided discretion to the Chairman and to the Unified and Specified Commands as to where the reductions could be taken from the various specific recommendations made in the study.

During the course of the Fiscal Year 1990/1991 biennial budget review, consideration was given to the Services' proposals that the personnel savings resulting from the study recommendations should be reinvested. Approval was given to reapply 2,244 personnel spaces in validated requirements in combat and medical units. Ten personnel spaces for the U. S. Delegation and Mission to the North Atlantic Treaty Organization (NATO) were also restored during the budget review. A final net reduction of 746 personnel resulted. The total Operation and Maintenance reduction made was $12.4 Million in FY 1990 and $29.2 million in FY 1991 as a result of civilian work year savings.

Stock Fuel Prices

Mr. Hutto: Stock fuel prices are 10 percent below the 1989 cost. How valid is this assumption, and what will it cost if prices remain at the 1989 level?

Mr. Flinn: The stock fund composite fuel purchase price for FY 1990 is based on actual fuel purchases made in FY 1988 as adjusted for current economic assumptions. Since fuel costs are very volatile and influenced by many uncontrollable factors, it is virtually impossible to accurately project future fuel costs. Through February 1989 the Defense Stock Fund has procured fuel at the average purchase price of $23.66 per barrel which is approximately $2 per barrel more than the stock fund budgeted composite rate of $21.65. If the current average purchase price continues through FY 1989 and FY 1990, the Defense Stock Fund will be underfunded in FY 1990 by approximately $2 per barrel or $350 million.

Civilian Pay Raise

Mr. Hutto: The Administration is requesting a 4 percent increase for military pay but only 2 percent for our civilian employees. Because Congress has insisted on comparable raises for the last few years, (1) how realistic is this assumption, (2) what will it cost if Congress increases the civilian pay raise by 1 or 2 percent?

Mr. Flinn: I believe the assumptions regarding the pay raise rates are realistic given the resource constraints faced by the Administration. The Administration is requesting a 3.6 percent pay raise for the military members compared to a 2 percent pay raise for civilians. Priority was placed on the military pay raise to prevent a loss in purchasing power for the military members, while the civilian pay raise was sized on a governmentwide basis, not just for DoD civilians.

DoD has budgeted approximately $530 million in FY 1990 for a 2.0 percent civilian pay raise effective January 1, 1990. For DoD every one percent increase in the civilian pay raise rate would cost approximately $265 million assuming the same effective date.

Mr. Hutto: Congress gave the Department of Defense a drug interdiction mission, and last year about $300 million was added to the budget.

However, there are no funds being requested under this program for fiscal years 1990 and 1991. How could this be?

Mr. Flinn: The Department is in the process of planning the implementation of the new drug interdiction missions authorized in the FY 1989 DoD Authorization Act. The planning process was not far enough along to identify the FY 1990 and FY 1991 funding requirements for the new drug mission. However, the Department will continue to support drug interdiction efforts in FY 1990 and FY 1991.

Mr. Hutto: In preparing the O&M budgets, an inflation rate of 3.4 and 3.0 percent was used. How does this rate compare with the most recent actual index of 7.2 percent, and will there be an overall shortfall of O&M funds thereby bringing about the need for major reprograming actions?

Mr. Flinn: Should a 7.2 percent rate of inflation materialize for FY 1989, it would create an FY 1990 O&M funding shortfall of about $1.3 billion. The shortfall would be considerably greater except for DoD policies which stabilize prices for purchases from DoD industrial funds and stock funds. An O&M shortfall of $1.6 billion would create program turbulence without additional funding. At this time, however, there are no plans to revise inflation estimates or to request additional O&M funding for inflation.

American Forces Information Services

Mr. Hutto: You mention that there is program growth of $8.9 million for the American Forces Information Services. Is this the result of real program growth or is it a transfer of functions?

Mr. Flinn: Of the $8.9 million program growth in FY 1990 for the American Forces Information Services, $1.9 million reflects the transfer of the Current News Analysis and Research

Service from the Air Force and $4.6 million represents a transfer from the Army for satellite delivery service in Germany and Italy. The balance of $2.4 million in program growth covers such items as travel and transportation requirements; expanded radio and television satellite service in the Persian Gulf, mainland Japan, Greece, and the Netherlands; increased metered mail usage; the upgrade of two satellite dishes; and Service generated requirements for health promotion and educational materials.

Mr. Hutto: On page 9 of your statement you indicate that there is an $800,000 reduction in the Office of the Secretary of Defense for contract studies and analyses efforts. However, our review if this line item shows a $436,000 increase for fiscal year 1990 and an increase of $329,000 for fiscal year 1991. Would you explain the differences in this account?

Mr. Flinn: To be more accurate, my statement should have indicated that there is a reduction of $.8 million in the Office of the Secretary of Defense predominately related to reduced contract studies and analysis efforts. The $.8 million reduction is the total net program reduction for OSD in FY 1990 excluding the Joint Recruiting Advertising Program which is separately identified in the justification material. The program for the contract studies and analysis area actually decreases $2.2 million in FY 1990 and $1.5 million in FY 1991 when the line item reflecting Contracts with Federally Funded Research and Development Centers (FFRDCs) is considered with the line item for contract studies.

Mr. Hutto: Mr. Flinn. On page 8 you state "to accommodate the reduced level of funding while maintaining the required levels and quality of training, increased use of wargaming and computer simulation is being tested to offset the reductions in large, troop intensive training exercises."

What does this mean?

Have military exercises and/or unit-level training funds been reduced?

For example, Fort Hood's two combat armored divisions' M-1 tanks achieved miles per tank of 677 in FY 1988. In FY 1989 the figure is 635. How will the Army or Fort Hood achieve the 800+ miles stated in the budget?

Mr. Flinn: Funding constraints in recent years have compelled the Department to reevaluate its program priorities and some funding for Army and Marine Corps military exercises and unit training has been reduced. To partially offset this reduction, the Department is expanding its use of wargaming and computer simulators. The Army is using simulations and simulators to enhance training for maneuver crews, units, and headquarters and staffs. Two tests will be conducted to compare the effectiveness of simulations with actual full scale field exercises for maneuver crews and units. Scheduled for the Fourth Quarter 1989 and the Third Quarter 1990, these tests will also review the effectiveness of simulations at the platoon to battalion level. The Army is also establishing Command Post Exercise Centers which use simulation technology. At the brigade to corps level, the Army will examine distributed wargaming system technology in two tests scheduled to occur during USAREUR exercise CARAVAN GUARD (September 1989) and REFORGER 90 (January 1990). In the case of the Marine Corps, the funding reduction has been accommodated by emphasizing more small unit and individual training. The Corps will concentrate on the small unit skills required for low and mid intensity conflict. Because this training can often be accomplished locally, transportation costs are reduced.

In terms of the Army or Fort Hood achieving their ground training objectives, it is important to understand that the 800 mile OPTEMPO reflected in the O&M, Army budget data represents the average level of ground training operations budgeted Army-wide for FY 1990/1991. At some bases, training operations will exceed the budgeted 800 mile rate; at others, training will fall below the average. In recent years, the Army has sometimes reduced O&M funds for Land Forces to meet unanticipated costs growth in such programs as CHAMPUS. These reductions have forced base commanders to face hard decisions on program priorities. For example, when faced with a 25% reduction in O&M funding between FY 1987 and FY 1988, the Fort Hood commander elected to reduce operational training. Other base commanders reduced other programs and the Army executed a ground OPTEMPO of 725 miles overall in FY 1988. For FY 1990/1991, the Army has programed sufficient resources to execute an overall OPTEMPO of 800 miles.

Reprogramming Sources for Additional Civilian Pay Raise

Mr. Hutto: You mention on page 4 that $300 million reprogramming is needed to finance the 2.1 percent civilian pay amount not budgeted for in 1989. What will the source for this reprogramming be?

Mr. Flinn: The sources for the unbudgeted 2.1 percent civilian pay raise will be inflation savings from the various Procurement and Research, Development, Test and Evaluation appropriations and projected fuel savings from the Defense Stock Fund.

Question: What plans do you have to ensure that overseas school lunch programs are provided with the same level of commodity support from the Department of Agriculture as schools located in the United States?
Dr. Lagomarsino:

The Army and Air Force Exchange Service (AAFES) is the school feeding authority for all of the DoDDS on Army and Air Force bases overseas. They receive the same commodity entitlements as schools located in the United States. Each year the United States Department of Agriculture (USDA) publishes the entitlements in the Federal Register. This year, the entitlement is $0.1225 per meal served, and AAFFS received $708,000.00 of entitlement money for Group A and B commodities. Group A includes fruits, vegetables, chicken, beef, and other meats. Group B includes vegetable oil, shortening, oats, rice, spaghetti, corn meal, and flour (flour is known as a threshold item; if you have used all of your Group B entitlements you can receive any amount of flour that you can use, if it is available). In addition, we receive bonus items: cheese, butter, non-fat dry milk, and honey. Bonus items are not provided on a per meal basis, we are authorized as much as we can use, if it is available. This year there were caps placed on some of the bonus items because of shortages. AAFES uses all of the entitlement money and requests as much of the bonus commodities as they can use in the school lunch program. They also have received rebates on donut mix through the National Commodity Processing Program for mix bought from a supplier. The total value of Group A, B, and Bonus commodities received this year is approximately $2.0 million. In addition, AAFES receives cash payments from the USDA. The payments are $0.14 for every meal served, plus $0.9214 for every reduced price meal, and $1.3225 for every free meal. As of the end of March, 84% of the meals served were full price, 9% were reduced price, and 7% were free, and AAFES had received $1,463,000 in cash payments from the USDA. The lunch program is eligible for and is receiving the same level of commodity support as U.S. schools, as far as we can determine. However, we do not have specific information available on exactly how much support individual school systems do receive. The Department of Defense is submitting a new proposal, as part of the DoD legislative program to the 101st Congress, to authorize the DoDDS to use appropriated money to subsidize the cost of school meal programs in its overseas schools in order to keep costs to the students at a rate comparable to the rate charged by schools in the United States. AAFES cannot absorb the difference between cost of preparation (after subtracting all cash and commodity subsidies from the USDA) and the price charged the student. The anticipated cost of the proposed legislation will approximate $2.0 million in FY90.

Question: How do DoDDS graduates compare with public school graduates?

Dr. Lagomarsino:

DoDDS graduates compare favorably with public school graduates. Indicators of DoDDS graduates' favorable performance with their stateside counterparts are evidenced in (a) standardized test scores, (b) scholarship and financial aid awards, and (c) percent of graduating seniors reporting intent to enroll in postsecondary education.

(a) Standardized test scores

Among the 50 States participating in the Scholastic Aptitude Test (SAT) examination, DoDDS ranks in the top third. Further, of the twelve states with participation rates of 60 and above, DoDDS student SAT scores rank second for mathematics and third in verbal performance.

Comparison of DoDDS SAT Results with Selected States*

	State	Verbal	Math	60% & Above
1.	Delaware	433	466	62
2.	Georgia	404	444	63
3.	Maryland	433	475	60
4.	Massachusetts	432	474	73
5.	New Hampshire	(1) 446	(1) 487	68
6.	New Jersey	424	469	69
7.	New York	420	469	72
8.	Pennsylvania	424	462	63

Comparison of DoDDS SAT Results with Selected States* (cont.)

State	Verbal	Math	60% & Above
9. Rhode Island	431	469	64
10. Vermont	(2) 437	472	64
11. Virginia	430	472	63
DoDDS	(3) 436	(2) 478	60

*States testing similar percentage of students as DoDDS. Parentheses equal rank order.

These data are significant since "rate of participation" is a variable the College Board describes as important to appropriate score interpretation. Generally, as rate of participation increases, test scores decrease. DoDDS student performance demonstrates reverse behavior.

Summaries of the 1988 SAT results show that DoDDS high school seniors average higher scores on both sections of the SAT than seniors attending the nation's high schools. For 1988, the DoDDS SAT verbal mean score is 436 and the mean mathematics score is 478. The national averages on these tests for the same time period are 428 and 476, respectively.

(b) Scholarship and financial aid awards

DoDDS graduating class of 1988 numbered 5,345. Of these, 1,469 seniors (27 percent) received 1,492 financial aid awards and scholarships with a cash value of $8,364,043.

CATEGORIES, NUMBERS, AND CASH VALUE OF SCHOLARSHIPS AWARDED

CATEGORIES	NUMBER	AWARD
Financial Aid (e.g., loans, work/study)	213	$1,376,623
Local Scholarships	851	1,067,487
State and College Scholarships	124	890,701
Military Academy Appointments	51	2,340,000
ROTC Scholarships	96	2,025,226
Athletic Scholarships	28	124,568
Special Scholarships (e.g., music, art)	118	529,088
Vocational Education Scholarships	11	10,350
	1,492	$8,364,043

(c) Pursuit of postsecondary education

Sixty-one percent (3,250) of the DoDDS graduating class of 1988 indicated intention of attending a 2- or 4-year college or postsecondary institution. DoDDS participated in the High School and Beyond Research study in 1981 which indicated in Table 39, that 60 percent of DoDDS seniors had college plans for the next year as compared to 54 percent of seniors in the U.S.

Question: In your prepared statement you referred to military support services and dormitory operations. Would you please elaborate?

Dr. Lagomarsino:

DoDDS reimburses the military services for logistical and administrative support provided to the schools. These services include: supply, accounting, payroll, personnel, furniture and equipment maintenance, security, grounds maintenance, mail pick-up and delivery, fire protection, safety, community services, and snow removal. The majority of the above support would not normally be included in U.S. public school budget as the school would not be required to reimburse the applicable government entity providing these services.

DoDDS operates three dormitories for secondary school students residing outside commuting areas. U.S. public school systems do not normally operate dormitories, therefore, we have excluded dormitory costs when calculating comparable per pupil costs.

DLA's Sourceload Shipments Program (direct from the producer to the overseas commissary) takes about 15-25 days less than depot shipments. Sourceload shipments are used to the maximum extent possible. We are expanding our automated system to increase the potential for multiple stop sourceload shipments. This action will decrease the flow of material into DLA depots for sea-van consolidation and further reduce OST. DLA has made significant progress in sourceload OST since 1984.

The Army, with Air Force participation, has contracted for a distribution system to explore the possibilities of establishing a stocked central distribution center in Europe or on the East Coast of CONUS. DLA performed a similar study in the spring of 1988. It concluded that this system would be more costly than the current Nonstocked Direct Commissary Support System. Other actions underway to reduce OST include shortening of vendor delivery times, tightening of van booking procedures, increased van visibility and establishment of an 8-day in-country delivery standard.

QUESTION: Your FY 90 O&M Budget Request is $79.8 million less than FY 89, and your FY 91 O&M request is $56.1 million less than the Fiscal Year 1990 request. How were these savings or reductions achieved?

Gen. McCausland: We are making an intensive effort to take advantage of the new technologies in information processing. By taking advantage of currently available improvements in data processing and communications capabilities, we can improve the timeliness and quality of our support, provide more challenging jobs for our personnel and significantly reduce costs. We are modernizing our major ADP systems, developing new management systems and automating the processing of paper in our depots. More and more of our employees have use of personal computers to accomplish their jobs. We are linking our field to headquarters and providing instant access to data. We are in the process of modernizing our major inventory management system. All of these initiatives lead to greater efficiency and effectiveness.

We have embarked on a systematic approach to improve the products and services to our customers. DLA intends to get everyone involved in reviewing existing processes and to strive for continuous improvement. We believe in Total Quality Management and are developing programs to reach each employee of this Agency. A profit gain-sharing program was instituted in which our employees can receive cash payments based on the productivity of an entire activity. We are emphasizing people-oriented efforts designed to change our culture to a participatory environment and actively building teams to solve problems and increase productivity. A productivity data base for use throughout the Agency was developed which allows us to export productivity initiatives from one activity to another.

Many of our facilities are 30-40 year-old renovated warehouses. We are currently investing heavily in our facilities which have been an impediment to efficient operations and employee commitment. Our buildings are being modernized, mechanized and equipped to provide for more efficient operations.

Finally, if we make the investments we have budgeted for in FY 89, the productivity gains reflected in the FYs 90 and 91 budget requests are attainable.

Mr. Hutto: The Congress allocates over $130 million a year for transportation of U.S. products to commissaries overseas. Yet, the Committee has been advised that prices are higher for products overseas. We have also been told that manufactures' price reductions are not being obtained for overseas products. Why are prices higher overseas?

Gen. McCausland: On average, prices for products in overseas commissaries are slightly higher than in CONUS. Foreign markets, where a significant portion of overseas commissary products are purchased, are often higher priced environments in which to operate.

Overseas commissary prices are also higher because they must purchase a large percentage of brand name perishable items from DPSC, while CONUS commissaries can, through regional service operations, obtain these items directly from the vendor. This enables CONUS commissaries to negotiate significantly more manufacturer price reductions by offering prime retail space in their stores. While DPSC also receives some manufacturer price reductions, it cannot guarantee prime shelf space in European commissaries that is required, since the Services, not DLA, operate them. Many of the products purchased by overseas commissaries in foreign markets are priced differently than CONUS commissaries because of this. This price differential is passed on to the customer.

QUESTION: The Congress allocates over $130 million a year for transportation of U.S. products to commissaries overseas. Yet, the Committee has been advised that prices are higher for products overseas. We have also been told that manufacturers' price reductions are not being obtained for overseas products. Why are prices higher overseas?

Gen. McCausland: On average, prices for products in overseas commissaries are slightly higher than in CONUS. Foreign markets, where a significant portion of overseas

commissary products are purchased, are often higher priced environments in which to operate.

Overseas commissary prices are also higher because they must purchase a large percentage of brand name perishable items from DPSC, while CONUS commissaries can, through regional service operations, obtain these items directly from the vendor. This enables CONUS commissaries to negotiate significantly more manufacturer price reductions by offering prime retail space in their stores. While DPSC also receives some manufacturer price reductions, it cannot guarantee prime shelf space in European commissaries that is required, since the Services, not DLA, operate them. Many of the products purchased by overseas commissaries in foreign markets are priced differently than CONUS commissaries because of this. This price differential is passed on to the customer.

QUESTION: In 1984 the Committee expressed its concern about the long shipment time to military commissaries. At that time it was taking about 120 days to get products to Europe. A few months ago the commissary Commanders told this Subcommittee that it took 120 days or so to get these products to stores in Europe. What is DLA doing to shorten this long leadtime?

Gen. McCausland: Deliveries to European Commissaries range from 105 to 120 days for the Army and 85 to 100 days for the Air Force. Thirty days of the Army's 120-day overseas shipping time (OST) is Army requisition preparation time. The Air Force OST is shorter because they process their requisitions about 20 days faster than the Army.

Army OST should improve in the 1990/1991 timeframe when the Army's District Oriented Store System (DOSS) will be fully implemented. DOSS will reduce the requisition time by approximately 23 days, thus reducing the overall OST from the current 105-120 days to 82-97 days.

DLA's ongoing Electronic Data Interchange (EDI) initiative with selected large vendors should reduce contract preparation/processing times by 2 to 3 days.

Question: You mention that DoDDS teacher salaries are based upon surveys of urban school jurisdictions.

Are these teachers civil servants, and why is their pay calculated differently from other types of civil servants' pay scales?

Dr. Lagomarsino: The pay system for teachers employed by DoDDS conforms with Teachers Pay and Personnel Practices Act (20 US Code Sections 901-907). The teacher pay system, designated as the TP pay plan, provides occupationally-based salary schedules for school-level teachers and specialists employed overseas. Grades or classes are not used to distinguish between such occupations as teachers, counselors, and social workers. During SY 1987-88, DoDDS brought school-level principals and assistant principals into the TP pay plan. TP personnel are employed civil servants in the excepted service.

Salary rates for the various occupations covered under the TP pay plan, as well as extra-duty compensation for coaches and other extra-curricular activity sponsors, are established by the

DoD Wage Fixing Authority (WFA). Each year, as required by law, the WFA conducts a nation-wide survey of pay and pay practices in more than 170 urban school jurisdictions of 100,000 or more population. The results of this survey fashion the annual pay rates for teachers and school administrators.

Question: How many teachers are there in your school system?

Dr. Lagomarsino: There are about 10,500 employees assigned to the TP pay system in the DoDDS system.

Question: How many do you hire each year?

Dr. Lagomarsino: Approximately 1100 teachers are hired through this program annually.

Question: How are they recruited?

Dr. Lagomarsino: DoDDS operates a positive recruitment program to attract and employ quality candidates for its school system. Teachers are recruited through a U.S. recruitment program, operated by the Office of Dependents Schools; a Local Hire Program, operated by overseas civilian personnel offices; and through a special Student Teaching Program, operated by DoDDS in cooperation with U.S. colleges and universities.

The U.S. recruitment program is a nationwide recruitment effort and supplements the overseas program by providing principals with the skills and expertise needed to implement an instructional program for students. Approximately 550 teachers are hired through this program annually. Recruiting activity identifies a target audience which is based upon an analysis of program history, known and anticipated military structure and program changes, and the number and type of known or projected vacancies. Recruitment activity also determines the special emphasis areas by considering shortage academic skill areas; racial, ethnic, and gender balance; and representation of disabled veterans and handicapped individuals. Subsequently, sources which enable DoDDS to reach its target audience are determined. These sources include colleges and universities, national educational conferences and conventions, recruitment fairs, professional publications, mailing lists, and referrals.

The Local Hire Program provides employment opportunities for family members of employees of the DoD and other Federal government agencies stationed overseas. It also includes a very small number of U.S. citizen tourists and spouses of citizens employed with private firms overseas.

The Student Teacher Program is conducted by DoDDS to provide and promote employment opportunities for students enrolled in teacher education programs at regionally-accredited U.S. colleges and universities. Through this program, students complete their required internship or practicum in a DoDDS school. Upon their graduation and our validation of their successful student teaching experience, DoDDs will employ these teachers without prior, formal classroom teaching experience. These teachers will be separately identified this year and we anticipate hiring many talented teachers through this program.

Question: In overseas areas DoD nonappropriated fund and commissary employees are treated as virtually full partners with military and civil service personnel. Shouldn't the Defense Department treat these employees the same for the purpose of dependent education?

Dr. Lagomarsino: DoDDS was authorized by the Congress to provide a free public education only for those who are a "dependent" of a DoD "sponsor," defined as an "employee of the Department of Defense paid from appropriated funds." Public Law 95-561, Section 1414, 20 U.S.C. Section 931.

Employees of nonappropriated fund instrumentalities (NAFI) are not compensated with appropriated funds, and therefore, are not entitled to free education under Public Law 95-561.

The issue of tuition reduction for NAFI dependents has been under study within the DoD, especially as NAFI's have been required to operate at greater arms length from appropriated activities. The Secretary has been reluctant to consider reduction of tuition for NAFI dependents for several reasons.

In 1985 Congress amended Public Law 95-561 to authorize the dependents schools to program tuition receipts for dependents who are authorized to attend the schools on a space-available, tuition-paying basis. Public Law 99-145 added Section 1404 (d) to Public Law 95-561, 20 U.S.C. Section 923 (d). That amendment specifically forbade the Secretary to waive tuition (as he is otherwise authorized to do by Section 1404 (c), 20 U.S.C. Section 923 (c)) for any tuition-paying dependent, "including employees of nonappropriated fund activities of the Department of Defense stationed in overseas areas," for whom the Secretary intended to program resources.

The number of NAFI dependents who would attend DoDDS schools on a tuition-free basis is unknown. It is believed that their enrollment on a tuition-free basis would swell class enrollments. A waiver of tuition for these dependents would deprive DoDDS of the income it currently receives to finance the education of these children. Without offsetting increases in appropriations, tuition waived NAFI enrollment would therefore dilute the quality of educational services provided to those dependents who are otherwise entitled to "a free public education. . .of high quality." Public Law 95-561, Section 1402, 20 U.S.C. Section 921 (b).

Whatever the current number of overseas NAFI dependents, that number could be expected to expand significantly if the long established rule that these dependents must pay tuition were relaxed. For example, NAFI activities overseas include the commissary, exchange, snack bars, service clubs, theaters and bowling alleys, flight clubs, and all health, recreation, and morale activities of the Services. Many of the employees of these NAFI's are authorized to take their dependents overseas, others are not. Many employees are local hires and personnel with families who are citizens of the foreign nation. It is reasonable to expect that a reduction in tuition would provide an incentive for NAFI employees to enroll their dependents, who are otherwise enrolled currently, in DoDDS. Additionally, free schooling would provide an incentive for more NAFI sponsors of school-age children to come overseas.

Even if the Secretary were to waive tuition for NAFI dependents, they would remain space-available. Currently, there are several locations in which we are unable to accommodate space-available dependents. However, under the present priority scheme, the tuition paying NAFI dependents have enrollment priority over other space-available dependents, and therefore, are generally able to be accommodated. The distribution of NAFI employees overseas is such that there may be additional schools in which there would be insufficient space to accommodate NAFI dependents whose tuition was waived.

The contributions of the NAFI employee overseas are significant. DoDDS would be happy to provide educational services to any dependent which the Congress should determine to be entitled to enrollment and for whom appropriate funding were appropriated. DoDDS has indicated that it would support legislation advanced by the NAFI's to authorize public education for their dependents. DoDDS has not, however, sought funding for NAFI's under existing law because of the long standing specific prohibition on using appropriated dollars for NAFI employee dependents.

Question: The Army and Air Force Exchange Service provides DoD schools with the school lunch program. We understand that there are efforts underway for AAFES to provide monitors in the cafeterias at lunch time. Do you believe that AAFES, in its status as a nonappropriated fund instrumentality, has the obligation to provide this supervision?

Dr. Lagomarsino: DoDDS does not believe AAFES has this obligation. The reason that DoDDS has explored the possibility of contracting with AAFES to provide monitors is that DoDDS' staffing ceilings virtually exclude the possibility of hiring lunch time monitors as is the common practice in U.S. school systems; however, they do not preclude extending the workday of part-time employees. There are, in fact, many instances in which employees working part-time as teacher aides can add lunchroom monitoring to their assignments without resulting in use of additional manpower spaces. Committees of both houses of Congress reviewed this specific issue in 1986. While there was support for exempting the hiring of lunchroom monitors from manpower ceilings, the ceilings continued to be in effect under the Defense Reorganization Act of 1987 (Goldwater-Nichols).

Question: Isn't this a school responsibility?

Dr. Lagomarsino: Yes, it is and it is assumed by school staff. School principals commonly supervise lunchrooms; teachers assist with lunchroom supervision; and as mentioned in the previous question, teacher aides are sometimes available for this duty. The need to provide teachers with a duty-free lunch period remains a problem; therefore, we have considered alternatives such as attempting to include monitors in the AAFES contract.

Mr. Flinn, General McCausland, and Ms. Duke, and Dr. Lagomarsino, we thank you very much for being here for your testimony and for your response to questions, and we look forward to working with you.

The subcommittee stands adjourned until 1:30.

[Whereupon, the subcommittee was adjourned to reconvene at 1:30 p.m.]

AFTERNOON SESSION

DOD CIVILIAN MANAGEMENT

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. HUTTO. The Subcommittee on Readiness will come to order.

In this afternoon's hearing, we begin exploring what I believe to be one of the main challenges facing this subcommittee for the foreseeable future—identifying ways to reduce the Defense O&M budget without reducing the readiness of our war-fighting units.

During the build-up in the early 1980s, the Department did not have a plan to spend the large funding increases. There was no prioritization of programs. It seems that everyone just got more, instead of the funding being directed to areas where it was needed the most.

Now that the tide is changing and budget reductions are imminent, the Department will try to perhaps take the easy way out to distribute the pain. Everyone will get less without regard to their contribution to the national defense.

This is clearly not an acceptable way to do business. The Congress must insist on priorities being set, and we must insist on a plan to preserve war-fighting ability while reducing unnecessary or marginally-contributing support units. We must protect those areas of the O&M account that directly impact on our war-fighting capability and direct reductions in those areas that do not.

That is the thrust of Mr. Derek Vander Schaaf's report on the Headquarters Staffing of the Unified and Specified Commands. His team has made recommendations that they feel would eliminate unnecessary and duplicative headquarters structures that do not contribute to any war-fighting capability.

The report is realistic in assessing the current budgetary realities and then making recommendations that they believe would help to protect our war-fighting units. If the Department would implement the recommendations, it could save $2 billion, and there would be additional savings in operating and support costs.

To be fair, Secretary Carlucci did mandate reducing several thousand spaces, but the JCS has opposed most of the recommendations in the report, and this is what we want to learn about and know why, and so, we look forward to the testimony this afternoon.

Mr. HUTTO. Mr. Vander Schaaf, you and your team are to be congratulated for your study and report. Your recommendations are logical, seemingly, and well documented. We look forward to your testimony.

At this time, I would like to recognize our ranking minority member on the Readiness Subcommittee, Mr. Kasich.

Mr. Kasich.

Mr. **Kasich**. Thank you, Mr. Chairman.

I would just as soon submit the statement for the record and welcome Mr. Vander Schaaf this afternoon.

Prepared Statement of Hon. John R. Kasich, a Representative From Ohio, Ranking Minority Member, Readiness Subcommittee

Thank you, Mr. Chairman.

I want take this opportunity to welcome Derek Vander Schaaf before this subcommittee. I have worked with Derek over the years and have come to regard his wisdom and experience highly.

Derek, I can't think of a better person for Secretary Carlucci to turn to, to get an objective and thorough analysis of these headquarters functions. I think your team did a terrific job and your recommendations are both sweeping and well founded. It is work like this that has reinforced my belief that there are significant savings to be had in the DOD budget if we can only get a handle on the bloated bureaucracies and entrenched overhead that does not contribute one bit to our national defense.

I have reviewed the testimony of the OSD and JCS witnesses and I am amazed that they are so vague. The military has taken on a "trust me" profile, these issues are too important to be left to civilians. Well, my reaction to that is that these issues are too important to be left to a military bureaucracy that is more interested in the number of general office billets than they are in developing a coherent strategy for our national defense at a reasonable cost.

Mr. Chairman, this is another study that makes common sense recommendations that, if implemented, will save defense dollars and lead to a more streamlined, effective national defense structure. I intend to keep following up on these recommendations until the Department implements them and takes the appropriate actions.

Mr. **Hutto**. Thank you, Mr. Kasich, and your statement will be admitted.

Mr. Vander Schaaf, if you will come forward, we are now ready to hear your statement.

STATEMENT OF DEREK VANDER SCHAAF, DEPUTY INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Mr. **Vander Schaaf**. Thank you, Mr. Chairman.

It is a pleasure to be here. I appreciate your opening remarks.

The other day, I had lunch with someone in the Gold Room over in the Office of the Secretary of Defense, and they referred to me as the Salmon Rushdie of the Joint Chiefs of Staff. At that point, I figured maybe I was in real trouble with this business, but I am here.

I have a very long statement. I am sorry it is as long as it is. In fact, it is a compilation reduced down to about fifty double-spaced pages of a report, that we did during a 7-week period that is some 350 pages of single-spaced print.

Mr. **Hutto**. We would rather not be here till midnight tonight.

Mr. **Vander Schaaf**. I will not go through that entire statement, Mr. Chairman.

Mr. **Hutto**. OK.

Mr. **Vander Schaaf**. Before I do start, though, I would like to do one thing. I would like to thank and publicly recognize two people who helped very much in this report, and who until now, have not had any recognition for their effort.

I have with me Ms. Lorraine Carpenter. Lorraine is the sergeant major of this operation that we ran for 7 weeks. Believe me, it was an operation. She had to make sure the elements of the report were proceeding in a parallel manner because I would come in out of the field over the weekend, dictate and write segments and be back out the next day. Lorraine had to get all kinds of documents from the Joint Staff, which was not necessarily easy, and from various commands around the world.

In addition, I want to recognize my secretary, Ms. Frame, who has never been on Capitol Hill before. Pat put in some real duty typing this report about three times in about 2 weeks.

Neither one have had any opportunity to be at a congressional hearing. I said, well, I am taking these two people with me and give them a little public recognition for the job and effort that they have invested in this report.

Mr. HUTTO. Well, we appreciate their participation.

Mr. VANDER SCHAAF. As you mentioned, Mr. Chairman, Secretary Carlucci requested that I go out and try to perform a review of the Unified and Specified Commands. He gave me marching orders to have a report back on his desk in 7 weeks. That was a terrific task to do in such a short period of time, but I think we have accomplished it.

I am happy with the product. I am willing to stand behind the product. I do not, however, stand behind every word as being gospel or anything of that nature because these are items that reasonable men can disagree on. On the other hand, I think the general gist and trend of what I have put in the report and what we have documented will stand the scrutiny of time and the kind of scrutiny that you, here in the Congress, will give it.

I personally participated in almost all of the on-site visits. I personally conducted interviews with the four star commanders involved. I talked to many other general officers, many colonels, captains, majors, up and down the chain of command, in the process of doing this report.

What I tried to do was find out whether or not the headquarters effort was necessary and useful, and even if it was, was it being performed by another headquarters, either above or below the headquarters we were looking at?

I also focused on various organizational concepts. How the commands interacted with each other, specific mission authority, and what happens to change that command during periods of crisis or wartime.

I also made an early decision that we were not going to go with any across-the-board percentage reductions. Those are self-defeating. I have seen the Congress in its frustration, if you will, trying to deal with headquarters structures and headquarters management. The question posed would be say let us take a 10 percent reduction, let us do a 5 percent reduction, and invariably no reduction as a result of those kinds of activities. What happens is that the Department and the commands involved have a way of redefining what constitutes headquarters, the people back into a direct reporting unit, or otherwise obfuscating the problem. We have found out that the people do not leave.

As a matter of fact, when we took a look at the Department's reporting, which started about 33,000 people assigned to the headquarters of the Unified and Specified Commands, and those commands underneath, when we actually started counting heads, if you will, and looking at manning documents—instead of 33,000, we came up with 59,510 positions. About a 70 percent increase in the number of positions, and this is largely due to how one interprets what is a headquarters activity and function and so forth.

Another point I want to make is that this was not an audit in the usual sense of an IG-conducted audit. We did not do this to audit standards. I do not know that if we had attempted to do it to audit standards, if it would make any better product. I would have liked to have had a little more time to follow up. I probably could have documented a little better how the people were actually spending their time as opposed to how their job descriptions said they were spending their time. I want to assure you, Mr. Chairman, that the people who worked on this are competent people. They have long experience in the Department of Defense. I had a number of retired officers who worked with me on this group.

We just were not babes in the woods who walked into these headquarters and made some quick snap judgments. I have been working in this business for 25 years. Some of the people who worked on this project, who are now retired, had 25 or 30 years of military service.

So, anyway, I bring that up because I think there has been somewhat of an attempt to maybe diminish the results of this study because of the way we did it, and the time we took to do it.

The results of the study are built around three areas where we thought we ought to take a good hard look, and save some people.

First, was unnecessary military service component commands at each and every unified command in the structure. We said that, frankly, you do not need a military service component command at every unified command.

Second, we looked at unnecessary management oversight of base operations activity. We felt there were layers of management oversight on base operations functions in these commands that were redundant and unnecessary. Finally, we thought there were some overstaffed and redundant planning functions within those staffs.

Around those three major areas, we developed more specific recommendations, which dealt with individual commands and specific recommendations on positions to be eliminated from individual commands.

Now, in my opinion, neither the balancing of authority with responsibility nor the efficient nor effective use of resources that was envisioned in the Reorganization Act, and I am not talking about the Goldwater-Nichols Reorganization Act, is likely to be achieved unless at a minimum the unified command plan is changed to eliminate military service component commands of the supporting unified commands that do not have geographical areas of responsibility.

Now, three unified commands fall into this category. These include:

The U.S. Space Command, which has no geographical responsibility. It has all of space, in effect, as its area of command.

The U.S. Special Operations Command, CINCSOC, as it is often referred to.

The U.S. Transportation Command.

So, for those three major commands, I believe major personnel savings can be achieved if we simply eliminate service component headquarters and make them truly unified commands.

On pages 6 through 13 of my statement I address that situation in far more detail.

I frankly believe the best opportunity or the easiest place to achieve this recommendation is in the space command. At least there, the vested service interests are less long-term. It is a newer command, and I think the opportunities there are also probably as great as anywhere.

The U.S. Special Operations Command comes closest in terms of its current organization to our recommended organizational concepts. The toughest one to do, with the most service-vested interests, and obviously the one that will be most opposed within the military departments is the U.S. Transportation Command. That is discussed on page 11 of my statement.

Now, we also touched on service component commanders for unified commanders who have geographical areas of responsibility. I felt in total that we ought to test this concept first and that the span of control would become too great if we tried to eliminate service component commanders for unified commanders having large geographical responsibilities and huge force structures underneath their commands.

However, there were three instances here where I felt we did not need a service component commander any longer. Those commands are:

—The Army's Western Command, which is the Army's service component command to CINCPAC or the Pacific Command, and the Navy Forces Command.

—The CINCUSNAVEUR Command in Europe, which is EUCOM or European Command's service component command.

—The U.S. Naval Forces in Japan which could be wrapped up in the U.S. Forces Japan Headquarters.

With those conceptions, we left the geographically-oriented unified commands alone.

We said they can stay with service component commands. They are probably necessary for them to manage and control their force.

Now, let me go over some general conclusions concerning service component commands, if I may.

Service component commands often seem to be established for reasons that we have always done it that way. If one service is a four star service component commander to a specific unified commander, there appears to be pressure for each of the other services to establish a similar organization at the same level.

The Army situation, and the U.S. Pacific Command, is a good example. The automatic establishment of service component commands for all unified and sub-unified commands is unnecessary. I think it a resource-consuming practice.

The unified commanders simply do not always require separate component commanders for each military service, much less commanders of equal rank to pass orders and directions to subordinate headquarters.

In this time of budget constraints, I am disappointed that the various commands in the Joint Staffs are not evaluating the organizations from the standpoint of streamlining their operations.

So, in our report, and this is the section of the report that the Secretary of Defense did not accept, if he would have accepted those recommendations involving those commands I just mentioned, the geographical—the non-geographically-oriented CINCs, CINCUSNAVEUR, WESTCOM and U.S. Naval Forces Japan, we believe that we could save about 2,134 staff positions in there.

Now, Secretary Carlucci, as you mentioned, Mr. Chairman, to his credit, did recommend a reduction of 3,000 military and civilian positions through other recommended manpower cuts, and I want to get into those in just a moment.

But I do want to explain why he backed away from the 2,134 reductions that we had recommended in staffing at those particular headquarters.

First, it was asserted that eliminating the component command would erode the unified commander's ability to focus on his wartime mission. I disagree strongly with that assessment. In my judgment, the more a command structure can operate similarly in both peacetime and wartime, the stronger and more efficient that command will be in times of real crisis.

The other implication that came out was that the law requires service component commands to be a part of each and every unified command. This "legal" argument is without merit in that the law simply assigns responsibilities to organize, train and equip forces to the service secretary. It does not, however, direct the organizational structure through which this is to be achieved.

The military departments have various systems commands, training commands, logistics commands, and other organizations through which they currently organize, train and equip the forces.

So, as a matter of fact, the U.S. Naval Forces Command in Europe and the Army's Western Command really do not train, equip or organize the forces within those regions. LAV Fleet does that with the Navy in Europe primarily, and our commander, our four star commander in Korea, or forces command, primarily conducts those functions for the Army in the Pacific.

Now, I accept and I respect the Secretary's decision not to implement these recommendations dealing with command organizations. I still believe, however, these recommendations have merit, and I am disappointed with the Joint Staff and the command reactions to that part of the study.

I consider this unified and specified command report to be the most comprehensive review ever conducted of the Unified and Specified Command structure. It addresses both concepts for the organization and operation of these commands and provides specific recommendations by command and subcommand.

No previous review has ever dealt with these matters at this level of detail. Thus, it becomes very difficult for individual elements in the command structure to review the report and its recommendations objectively.

Since the report recommends reductions in manning and grade structure within each command itself, I recognize that many of the recommendations would be bitterly opposed by elements within the

Department and clearly informed the Secretary that only he or Admiral Crowe were in a position to make the suggested organizational and management changes.

Now, let me change subjects just a little bit, while still focusing on this organizational concept. See page 21 of my statement. I am making a lot of progress in this. It may not seem like I am, but I am trying to move through fast.

We felt that we had to take and put a simple concept into effect to in some ways better balance the service interests in some of these commands. Particularly, we found this would be absolutely essential at the Space Command.

What the simple recommendation or simple rule that I felt we ought to work toward in putting into effect was that every service should have at least 25 percent of the manning of one of these unified commands, no less than 25 percent, and no one service should control over 50 percent of the manning or positions within a unified command.

In that way, I think we would provide more balance to these commands and the ability to eventually see the service component command either way, if you will. It is just more likely to happen that the service component command will wither away if we, in fact, can balance out the unified command.

Currently, the Space Command is seen as an Air Force arena, and it is not. It should not be. The Army and the Navy both have strong interests in space and space operations, and I think they have to play a greater role in that.

The new Transportation Command is largely seen as an Air Force organization, with an Air Force officer at the head of the command. The Navy, over the years has, in some respects, for good reason, operated its own airlift force structure because of this problem of the Navy not seen its interests really lying in the military airlift command structure.

Now that we do have a Unified Transportation Command, I think we ought to try to make it really unified and useful in that way.

There is a concept in this report, and the second concept of the three that I started off with, that the Secretary bought and he bought a 100 percent, and that is layering of base operations management.

There are certain functional areas in base operations support, and I am talking about quality of life type programs like: community affairs; personnel regulations; equal opportunity; family housing; morale, welfare, recreation activities; education programs; and so forth. There are literally hundreds of these, in which the policies under which these programs are conducted are written at the highest levels of the Department, sometimes at the Office of the Secretary of Defense. Sometimes these are legislated by law; sometimes the Office of Personnel Management writes these policies, etc.

What I found in looking at these headquarters, and particularly I found this to be a problem in some of the Army component commands, were the layers of management, oversight and review and just general management throughout the command that dealt with these things. I said, wait a minute, family advocacy, the rules for that personnel functions are made at the highest levels of the command. Do we need it repeated at EUCOM? Do we then need it at 5th Corps, at 7th Corps, at 21st Support Command, at the communities, and then we finally get to the individual who delivers the child care or the family support service.

You have got eight people above writing policy, and you do that for bowling alleys, you can do that for golf courses, you can do that for swimming pools, and you can almost find in those manning documents those kinds of titles and descriptions up and down the line. I said this is unnecessary, felt it was unnecessary, and, frankly, in the process of doing this review, we came across an organization that did it differently in the Army. Something called the United States Army Support Command in Hawaii.

They had a ratio in terms of providing support of two to forty-five. In other words, two people were providing this kind of support for forty-five uniformed personnel. In Korea, we had a ratio of sixteen to forty-five, for example, and the ratio in Europe was close to that. We looked at those sorts of things and said there is some thinning out that can be done.

The Secretary of Defense in the end agreed with our recommendations in this area and has instituted some corrective action. I understand the Army is now trying to sort out exactly how it is going to move in this direction. The Army is to be commended for the progress they are making as they move in the direction of thinning out this base operations support oversight role.

Now, the third concept that I talked to and dealt with is excessive manpower expended on operational planning, and I could not come up with specifically how many man-years are involved, Mr. Chairman, in operational planning within all of these headquarters, but certainly it is several thousand.

We, in the end, recommended a reduction of 400 total. Frankly, I think there is probably some more that can be done. I am not sure that we are really organized and doing our work effectively when it comes to operational planning. Many of the plans are passed down. The details are passed too far up the structure.

I felt that particularly the Joint Chiefs of Staff, the Tactical Air Command, the Forces Command of the Army, EUCOM and PACOM, were, to some degree, bogged down in excessive operational planning, and I get into the details of how I reached those conclusions in this report, and some of that is in my statement.

I will not take your time to go through all of that with you, but the other thing we looked at and I am concerned about is a key shortcoming in the overall planning process.

We develop all of these operational plans and we do this through this unified and specified command channels. At the same time, at the highest levels in the Department, through the Under Secretary of Defense for Policy and through the Secretary of Defense, we develop what we call defense guidance and defense policy.

But I do not think there is ever a converter there that looks at these operational plans and looks at this defense policy that is issued by the Secretary of Defense and makes sure that this policy is, in fact, tying into these operational plans.

Now, I understand, and I am told that that situation is getting better, but every time I talk to people in PA&E—Program Analysis and Evaluation, I keep getting the feeling that, well, the Joint Staff does not provide access to this kind of documentation. There are difficulties. Only the Secretary can see that. We do not, as a regular rule, take a look to see if defense planning and the detail operational guidance are meshing together the way they should be.

So, I think that despite all the people we have in the planning process, I think we have some shortcomings. I concluded that more people are not necessarily the answer to this planning problem which we have.

I have a section, and I will not get into it here, that deals with the Joint Staff, in particular. Pages 29 through 34 of my statement, recommend that we have another, if you will, external review of the Joint Staff.

We made some very specific recommendations involving organization, coordination, and dealing with agencies of how the Joint Staffs should deal with agencies and activities outside of the Joint Staff, but I feel that it needs another in-depth review. I say this, despite the fact that I hate to, as part of a study, recommend another study. I think we did far more than just passing issues to another study group, but some further review in this particular matter might be useful.

Now, right before this hearing, I was talking to Mr. Berteau, who is going to testify in a moment, and he indicates to me that he thinks things have improved since the Goldwater-Nichols Reorganization Act. The Joint Staff apparently has opened up, has made itself more accessible, and does understand that it works for the Secretary of Defense.

So, I hope we are making progress. I felt there was a lot to be done, and I felt the Joint Staff was probably overstaffed. They sometimes had too many people to staff an action. They looked for unanimity or unanimous agreement on a lot of issues that simply are not going to get unanimous agreement. I realize they do not require unanimity any more before they bring an issue out of the Joint Staff, but they still have some features that I think need working on.

Basically, the recommendation for reductions in the Joint Staffs were not agreed to. I disagree with the decision not to do so. Again, I say let us get somebody else in and take a look again, if necessary.

Now I am finished with the three main factors that we looked at: Unified Commands and the use of service component commands, planning, and the excess of layering of base operations support.

Now, there are some other areas in this report that I think are worth your becoming involved in, and I start addressing those on page 35 of the statement.

One of them dealt with the geographical areas of responsibility that the various CINCs have. We noticed some disconnects, and I think some rather significant disconnects, in the responsibilities for certain areas. We felt that in particular CENTCOM, Central Command, which is headquartered in Tampa, was not given full responsibility of the forces when they were assigned to the Indian Ocean, and so forth.

About a year ago, when the joint task force for the Middle East was finally established and put into place and the command arrangements were changed, the U.S. CENTCOM commander did not have command of the ships in his area of operation. They still remained under OPCOM of the Pacific Forces Commander. So, we recommended that the Joint Staff or the Chairman of the Joint Staff redraw some of those ocean boundaries and also make CENTCOM responsible for Africa south of the Sahara as opposed to the European Command.

I found an awfully lot of the European Command people were busily conducting and planning for activities in Africa. I think that to our European allies it is somewhat of an affront to them. They do not want to have us conducting or planning operations from off of Europe that impact areas outside of NATO.

Now, maybe there are other arguments on the other side of the equation. The Joint Staff is here to make them to you, but on balance, I felt that those changes ought to be made.

The other point worth mentioning is that our command structure for the defense of the continental United States, for Alaska and the Aleutian Islands, is a mess. I do not think anybody knows what it is, quite frankly. If you question me on this, I will try to walk you through it, and I will try to explain it to you. I just say bear with me if you make me do it because I am not sure I can do it for you. You cannot go to one command, including the JCS, and get a straight answer.

I see Mr. Kasich there thinks it is time I probably stop. I will, and we will go on with some questions about this. There are obviously a lot of recommendations in this report that I did not treat here in my opening remarks. I do want to point out one thing, one general conclusion, Mr. Kasich, if you will allow me the time to do it.

Recently, ex-Secretaries of Defense Harold Brown and James Schlesinger headed a study. Mr. Kasich, I think you may know about this, I think you are a member of that group that did it, called "Making Defense Reform Work". They came out in November 1988 with the study that was actually printed by the Center for Strategic and International Studies, in which they stated the following.

Let me read this quote to you.

"The next Secretary of Defense and the Chairman, with the help of their respective staffs, must tackle this problem head on: Defense Reform. They should adopt the streamlining of the defense bureaucracy as one of their highest priorities. This is not just a matter of reducing the size of the staff to save costs. Their purpose should be to root out unnecessary intermediate levels of bureaucracy wholesale.

On the operational side, for example, a February 1988 internal defense study of the Joint Staff and the headquarters of the Unified and Specified Commands, including their component commands, found significant areas of overlapping responsibilities, duplication of functions, layering and opportunities for saving manpower."

It concluded, among other things, that there is no need for a military department supporting command for each and every unified command in the structure and recommended the elimination of service component commands for the unified commands not having geographical areas of responsibility.

"Although we are not necessarily prepared to endorse the specific conclusions of this one study, we believe that it illustrates the type of work that is necessary and the kind of conclusions that are likely to emerge. The acquisition bureaucracy is likely to provide even more lucrative targets for streamlining than the operational bureaucracy. The necessary studies should be completed early in the new administration and the Secretary and the Chairman should be willing to devote considerable effort to making sure their findings are implemented comprehensively.

"The Congress should support these efforts, giving the Secretary the necessary flexibility to implement far-reaching reform."

So, this effort was put to good use, in my mind, by two ex-Secretaries of Defense, who certainly recognized the problem. If we are going to get hold of this, we have got to look at this bureaucracy from a wholesale organizational standpoint. We cannot try to get there looking at it position by position.

I thank you for listening to me, Mr. Chairman. I will try to answer some questions you may have.

PREPARED STATEMENT OF DEREK J. VANDER SCHAAF

Mr. Chairman and Members of the Subcommittee:

I would like to thank you for the opportunity to appear today to discuss the special study, which resulted in the February 1988 report, Review of Unified and Specified Command Headquarters. I will discuss briefly the background that led to conducting the review and how the review was performed, the major observations, some of the findings and recommendations related to specific components, and my general conclusions.

BACKGROUND

On December 14, 1987, the Secretary of Defense Carlucci directed me to conduct a review of the Organization of the Joint Chiefs of Staff (now known as the Joint Staff), the Unified and Specified Command Headquarters, and the Headquarters support activities, to include component commands. The primary objective of the review was to focus on manpower levels and overhead costs, with particular attention to overlapping responsibilities, duplication of functions and excessive layering of organization echelons. Secretary Carlucci directed that a completed report be provided to him by February 1, 1988--allowing a period of just 7 weeks to conduct the study.

The Study Team began the effort by reviewing all recent studies of the Joint Chiefs of Staff, as well as the Unified and Specified Commands--such as the Locher, Odeen and Steadman reports. Units of the Study Team (each composed of from four to six members) visited and obtained mission, functions, personnel and budgetary briefings from the Joint Staff, all of the major Unified and Specified Commands, Component Commands, Subunified Commands and other pertinent organizations all over the world. During the review, previous manpower studies (when available) for a Unified, Specified or Service component command headquarters were also analyzed and considered. I personally participated in the onsite visits to most of the major and subordinate commands. During the command briefings, I focused on the specific work actually being performed, what kind of products or value added resulted, and whether the same or a similar function was being performed at another level or component. In other words, I wanted to find out whether the headquarters effort was necessary and useful and, even if it was, could it be or was it being performed elsewhere. I also focused on how the various organizational components interacted, each command's specific mission and authority, and what would happen or change within a command in wartime.

In order to accomplish Secretary Carlucci's objectives, in addition to reviewing the manning of the various headquarters, it was also necessary to examine the organizational structures. We attempted to determine if the specific organization, in whole or in part, was necessary and, if so, whether there was a more streamlined way to organize.

- **No Across-the-Board Percentage Reductions**. From the start of the effort, I made a decision not to recommend any across-the-board percentage reductions. I felt that percentage reductions were inappropriate. I believe that the numerous percentage-type headquarters reductions levied by the Congress on the Department of Defense over the past two decades reflect frustration in trying to determine what functions accomplished by a headquarters activity were necessary, a lack of understanding as to how all the various headquarters interact and relate to each other, and how each major headquarters adds to our war fighting ability. The results have been a series of congressionally mandated, arbitrary, across-the-board percentage headquarters reductions. While the Department was forced to accept the reductions, usually they did not result in actual strength reductions. The mandated result was generally achieved by a redefinition of what constituted a headquarters function/position--in order to reduce the base on which a percentage reduction had to be applied.

- Use of a More Encompassing Definition of Management Headquarters. In view of the above discussed practices used to overcome across-the board reductions, the Study Team took a more literal encompassing view of the definition of management headquarters than that contained in DoD Directive 5100.73. Instead of accepting the way the definition is currently being implemented within the Department of Defense, the Study Team identified all those positions that were "essential" for the commander to control and manage the assigned forces. In most cases, this substantially exceeded the number of personnel defined by the Directive. For example, we had a situation where, in January 1987, the Department reported to the Congress that it had 33,132 positions in Unified and Specified Commands and supporting Service component commands headquarters. On the other hand, using what I believe to be an appropriate definition of what constitutes a headquarters staff, we identified 59,510 positions in these same headquarters--an increase of about 70 percent.

Unfortunately, the information currently being provided to the Congress on headquarters manning (PB-22) clearly excludes positions that, by any reasonable definition of a headquarters activity, should be included.

- Study Team Composition and Approach. The Study Team that was assembled consisted of experienced auditors, inspectors and investigators (including some Uniformed personnel) from the Office of the Inspector General and knowledgeable manpower specialists from the Office of the Assistant Secretary of Defense (Force Management and Personnel). There was also input from other components of the Office of the Secretary of Defense. I want to emphasize that, although the Study Team included a number of Inspector General staff members, the review effort was not an audit or inspection. The review was a special study conducted for the Secretary of Defense at the specific request of the Secretary of Defense. And while I would have preferred to have a little more time to follow-up on some issues, the special study objective primarily required overall knowledge of the Department of Defense, which the Study Team members' experience and my own 24 years of experience in Defense matters provided. In my judgement, if the project had been conducted as an audit, it would taken at least a year to complete and would not have produced a product much different from a conceptual point of view. A detailed audit would have helped to provide a more clear picture of the actual day-to-day work habits in the various headquarters organizations and the products they produce. A detailed audit would also have allowed an opportunity to identify personnel who are working in management headquarters, but are actually assigned to subordinate units. (These people do not appear on the headquarters manning documents.) However, the essential issues as to the necessity of work performed and the value added at each level of command would still be the same. I am emphasizing this point because the Commands and the Joint Staff have attempted to diminish the study results and their validity on the basis that the work was not done as an audit. In my view, the study approach enhanced (not detracted from) the review results.

* * * * *

The review disclosed significant areas of overlapping responsibilities, duplication of functions, echelon layering and many specific opportunities for saving manpower. The report recommendations were built around three overriding or crosscutting issues (i.e., unnecessary component commands, unnecessary management oversight of base operations activities and redundant planning), as well as several other issues. The report is very comprehensive and only a few of the observations and recommendations are addressed in this testimony.

UNNECESSARY SERVICE COMPONENT COMMANDS

A major conclusion of the Study Team was that there is no need for a Military Department supporting command for each and every Unified and Subunified Command in the structure. The Goldwater-Nichols Department of Defense Reorganization Act of 1986 attempted to place responsibilities on the Commanders of the Unified and Specified Combatant commands for accomplishment of all missions assigned to those commands and to ensure that the authority of the Unified Commanders is fully commensurate with their responsibilities. The legislation also had clear objectives (1) to provide for more efficient use of Defense resources, (2) to enhance the effectiveness of military operations, and (3) generally to improve the management and administration within the Department of Defense. The current Unified Command Plan was supposed to have incorporated appropriate provisions of the DoD Reorganization Act to accomplish these goals. This was not done. For example, in my opinion, neither the balancing of authority with responsibility nor the efficient and effective use of resources envisioned in the Reorganization Act is likely to be achieved unless, at a minimum, the Unified Command Plan is changed to eliminate Military Service component commands for the "supporting" Unified commands that do not have geographical areas of responsibility. Three Unified Commands fall into this category--the U.S. Space Command, the U.S. Special Operations Command, and the U.S. Transportation Command. Eliminating Service component commands for Unified Commanders that do not have geographical areas of responsibility would result in major personnel savings and operational efficiencies.

- **U.S. Space Command**. The importance of space related operations to our national security increases each year. The Army and Navy will be required to play a greater role in this effort, especially as the Strategic Defense Initiative begins to produce operational systems. The Navy is already operating an "independent" space command, which should be integrated into the Unified Command. Integration of the Service functions into the Unified Command structure would also preempt the need for the Army to establish a separate space command. All of the Services and Service components will become increasingly dependent on space-generated information. We should take this opportunity to make sure our space assets and information systems are managed on a unified basis, with equal attention to the requirements of all the Services.

Within the concept discussed above, I recommended that the U.S. Space Command be organized as a truly unified command, with a joint headquarters and operational staff, including the disestablishment of the Service component commands (i.e., the Air Force Space Command, the Navy Space Command, and the fledgling Army Space Agency). The component command functions should be merged into the U.S Space Command Headquarters. The U.S. Space Command should have operational control of all space assets--not the individual Services.

- **U.S. Special Operations Command**. The U.S. Special Operations Command is a unique, new Unified Command, mandated by the Congress. By statute, the Commander in Chief, U.S. Special Operations Command, was given research and development and acquisition authority. In addition, a specific Assistant Secretary of Defense for Low Intensity Conflicts and Special Operations was established to support the special operations mission area. In order to have the special forces combat-ready and jointly trained (the objective of the Congress in setting up this special command), the U.S. Special Operations Command should have operational control of the component special forces in the continental United States during peacetime. (This is exactly the opposite of what occurs with the geographical Unified Commands.) As previously discussed, to accomplish this in the required joint environment, the best and most direct approach would be to incorporate elements of the Service component commands and transfer the Service special operations functions and related assets to the command.

I, therefore, recommended the establishment of a truly unified U.S. Special Operations Command headquarters, incorporating the Navy and Air Force Special Operations Commands and appropriate elements of the Army special Operations Command. I also recommended that the Commander in Chief, U.S. Special Operations Command, be given the operational control of the Service Special Operations

Forces--i.e.,, the Army contingent at Fort Bragg, North Carolina, the Navy SEALS at Coronado, California, and the 23rd Air Force at Hurlburt Field in Florida.
In addition, I recommended that the Commander in Chief, U.S., Special Operations Command be given operational control of the Service Special Operations School--i.e., the Army John F. Kennedy Warforce Center and Schools, the Naval Special Warfare Center, and the Air Force Special Operations School. Despite strong Navy objections, operational control of the forces and the Special Service Operations Schools has been given to the U.S. Special Operations Command. The recommendation that the Service Component Commands be disestablished and merged with the U.S. Special Operations Command was, however, rejected. It does not seem logical to transfer operational control of the forces to the Unified Command and still retain the component commands.

At the time we did the review, I observed that if the U.S. Special Operations Command was going to be able to control special forces-related research and development, acquisition (something that I believe to be unnecessary for a Unified Commander, but which has been specifically directed by the Congress), and joint training, the Commander in Chief must control his budget in order to be able to determine what funds should be used for what purpose in the special forces arena. For that reason, a decision was made in January 1989 to allow the U.S. Special Operations Command to control its own budget, beginning in FY 1992.

- **U.S. Transportation Command**. A unified U.S. Transportation Command was created to provide an integrated military transportation system under one Unified Command, to be operated in peacetime with the capability to transition smoothly to a wartime activity. Under the existing implementation plan, however, nearly all of the essential headquarters functions associated with transportation management and control of transportation forces remains with the component headquarters. This has created problems in the past, some of which were demonstrated in major exercises like NIFTY NUGGET. Unfortunately, the implementation plan for the new Transportation Command, prepared by the Joint Staff, was no plan at all and did not address any of the old problems. It simply added the Joint Deployment Agency and a dual-hatted four star general on top of the existing Military Department transportation activities. Other than giving the Joint Deployment Agency more visibility and clout by turning it into a Unified Command staff, little was gained except more unnecessary command layering.

Under the concept discussed above, I recommended the disestablishment of the Service component commands (i.,e., the headquarters elements of the Army Military Traffic

Management Command, the Navy Military Sealift Command, and the Air Force Military Airlift Command) and the merging of their functions into the U.S. Transportation Command headquarters, thus creating a truly "unified" command. The Services have argued that each of their transportation commands have so many "Service-unique" functions, that the unification or restructuring of the commands is impossible,. While there are a few Service-unique functions currently included in the component command missions, they are not sufficiently significant to serve as a reason to avoid restructuring. Such Service-unique functions could readily be transferred to existing organizations within the Military Departments.

Such a unification would also ultimately permit the consolidation and merging of the various Military Traffic Management Command and Military Sealift Command subordinate commands and offices on the East and West Coasts of the United States and in Europe, Japan and Korea. That would result in significant additional manpower reductions and efficiencies. Today, such these Service offices can exist side-by-side in the same geographic location with limited or no coordination or communication. The current transportation organization structure encourages duplication and layering.

In addition to using significantly less manpower, creating "truly unified" nongeographical, supporting Unified Commands would help to clarify responsibility and leave no doubt in the minds of the theater Unified Commanders as to whom is responsible for providing mobility forces, special operations forces and information from space-based sensors.

COMPONENT COMMANDS FOR THE GEOGRAPHICAL UNIFIED COMMANDS

It is also likely that these same economies and efficiencies could be accomplished by treating Unified Commanders that do have geographical areas of responsibility (i.e., theater commanders) similarly. I did not, however, make an all encompassing recommendation to eliminate Service component commands at supported, geographical Unified Commands. I concluded that application of this concept to the Unified Commands having geographic areas of responsibility could cause problems in span of control, particularly in wartime, when large force elements are assigned to the Unified Command. (The span of control for the non-theater, supporting Unified Commands will be reduced in wartime, as their peacetime force units are assigned ("chopped") to theater Unified Commands.) Testing the concept first makes sense, as is strongly implied by the Congress when one examines the Goldwater-Nichols Reorganization Act and its legislative history. Even though

I did not recommend that the Secretary of Defense consider across-the-board elimination of Service component commands for any of the geographically-oriented Unified Commands, I nonetheless concluded that there were opportunities to improve the peacetime management of these commands in a number of ways, including further unification and use of dual-hatted positions.

In keeping with this philosophy, the Army Western Command in the Pacific and the U.S. Naval Forces Europe as Service component commands of the U.S. Pacific Command and the U.S. European Command, respectively, should be disestablished. The incorporation of the U.S. Naval Forces Japan into the U.S. Forces Japan Headquarters is also appropriate and serious consideration should be given to treating U.S. Army Forces Japan in a similar manner.

- U.S. Army Western Command. The only combat force within the U.S. Western Command area of responsibility is the 25th Infantry Division and Reserve units belonging to the Hawaii and Guam National Guard and the Army Reserve. In essence, the Western Command is performing for the Army the same function that the Forces Command performs within the continental United States. The Forces Command currently serves as the U.S. Atlantic Command Army component commander. There is no reason why it could not also serve as the U.S. Pacific Command Army component command. In my view, the Department of Defense simply cannot afford the luxury of having 527 personnel in a command to serve as the Army trainer for Hawaii and Guam and as an "advisor" to the U. S. Pacific Command on Army matters. I recommended the disestablishment of the Army Western Command.

The Army not only supports the continued existence of the U.S. Western Command, about a year or so ago, it tried to obtain congressional approval for a 4-star commander. The Congress appropriately denied the request.

- U.S. Naval Forces Europe. The Commander, U.S. Naval Forces Europe, has no direct responsibility for training or for ensuring the readiness of assigned operational forces. The forces operating within the U.S. Naval Forces Europe area of responsibility are under the direction of the Commander, Sixth Fleet, and are, in fact, U.S. Atlantic Fleet assets. These fleet assets are assigned to the U.S. Naval Forces Europe while operating in the Mediterranean region, but U.S. Naval Forces Europe must rely on the support provided to these forces by the U.S. Atlantic Fleet and the U.S. Atlantic Fleet type commands. The U.S. Naval Forces Europe Command is, in fact, simply a "middleman," whose subordinate shore based assets can be transferred to the U.S. Atlantic Fleet. I recommended disestablishment of the U.S. Naval Forces Europe. If the Commander in Chief, U. S. European Command, desires a Navy component command, the Atlantic Fleet could easily fill that role.

- U.S. Southern Command. Although there was no specific recommendation with respect to the U. S. Southern Command (it was the only Unified Command we did not review), the application of the concept of eliminating component commands also appears to be particularly applicable to Southern Command. I know from experience that the U.S. Southern Command is largely an Army command and its Navy and Air Force component commands are relatively small in terms of the underlying peacetime force structure. The U.S. Southern Command is one geographical Unified Command that probably could be "unified" quite easily.

GENERAL CONCLUSIONS CONCERNING SERVICE COMPONENT COMMANDS

Service component commands often seem to be established for the reason that "we've always done it that way." If one Service has a four star Service component commander to a this Unified Commander, there appears to be pressure for each of the other Services to establish a similar organization at the same level. The Army situation vis a vis the U.S. Pacific Command is a good example. The automatic establishment of Service component commands for all Unified and Subunified Commands is an unnecessary, resource-consuming practice. The Unified Commanders simply do not always require separate component commanders for each Military Service, much less commanders of equal rank, to pass orders and directions to subordinate headquarters. In this time of budget constraints, I am disappointed that the various commands and the Joint Staff are not evaluating their organizations from the standpoint of streamlining their operations--i.e., how to do a better job with less. Instead, it appears that the same old approach continues to prevail--preserve the headquarters staffs and flag positions at all cost, which results in any personnel reductions cutting more deeply into the combat forces than would otherwise be necessary.

ACTIONS TAKEN ON RECOMMENDATIONS CONCERNING MILITARY DEPARTMENT COMPONENT COMMANDS

In summary, the layering of functions in various command headquarters is, to a large extent, due to the prevailing notion that Unified Commanders must have separate and distinct Service component commands. The application of a different organizational concept to the three nongeographical commands (i.e., the U.S. Space Command, the U.S. Transportation Command, and the U.S. Special Operations Command), to the U. S. Army in Hawaii, and to the U.S. Navy in Europe and Japan, could have saved 2,134 staff years and helped the Secretary of Defense, the Chairman, Joint Chiefs of Staff, and others to better pinpoint responsibility for both success and failures.

In response to the Unified and Specified Command Headquarters review, Secretary Carlucci, to his credit, did direct a reduction of 3,000 military and civilian positions even though other recommended manpower cuts and the recommendations dealing with Service component command organizations discussed previously were not adopted. It is my understanding the decision not to accept these was due, in large part, to two reasons. First, it was asserted that eliminating the component command would erode the Unified Commander's ability to focus on his wartime mission. I disagree strongly with this assessment. In my judgement, the more a command structure can operate similarly in both peacetime and wartime, the stronger and more efficient that command will be in times of real crisis.

It was also the Joint Staff/Commands contention that component commanders are a necessary element of each Unified Command because the statutes charge the Military Departments with organizing, training and equipping forces. The clear implication was that the law requires Service component commands to be a part of each and every Unified Command. This "legal" argument is without merit in that the law simply assigns responsibility to organize, train, and equip forces to the Service Secretaries. It does not, however, direct the organizational structure through which this is to be achieved. The Military Departments have various systems commands, training commands, logistics commands and other organizations through which they currently organize, train and equip the forces. As a matter of fact, for several Service component commands, such as the Army Western Command and the U.S. Naval Forces Europe, in particular, organizing and equipping the force is not one of their principal responsibilities; and training is, only to the extent that all military operations and exercises in peacetime constitute training.

There are literally dozens of different ways in which the U.S. Defense Command (headquarters) structure could be organized. I find it interesting to note that the "System" seems always to conclude that the current way is the perfect way and that any alternative arrangements, regardless of how well considered or how much less manpower intensive they may be, are automatically rejected.

I had an opportunity to review the Joint Staff response to the report for the first time last week. In my opinion, the response is embarrassing to the Joint Staff in that it contains numerous misleading statements and arguments, generally presented by the very organizations within the command structure most impacted by the recommendation, with little independent analysis by the Joint Staff. I clearly realize there is no right or wrong on these matters and they are subject to different viewpoints and honest differences of opinion. I accept and respect the Secretary's decision not to implement those recommendations dealing with command organization, although I still believe those recommendations have merit and I am disappointed in the Joint Staff and Command reactions..

I consider the Unified and Specified Command report to be the most comprehensive review ever conducted of the Unified and Specified Command structure, in that it addresses both concepts for the organization and operation of these commands and provides specific recommendations by command and subcommand. No previous review has ever dealt with these matters at this level of detail. Thus, it becomes very difficult for individual elements in the command structure to review the report and its recommendations objectively, since the report recommends reductions in manning and grade structure within each command itself. I recognized that many of the recommendations would be bitterly opposed by elements within the Department and clearly informed the Secretary that only he or Admiral Crowe were in a position to make the suggested organizational and management changes happen.

I am particularly dismayed by some of the statements made in a July 1988 Joint Staff response to the Secretary on this report. The following quote is an example: "In several instances ... we have elected not to address certain allegations that are either so clearly the personal view of the author, or so inappropriate in tone, that they have no place in a purportedly serious review." I will leave it to this Committee and the American public to determine if the report contains allegations so inappropriate in tone or that it was less than a serious review. This report has been in the public domain for the past eight months and I have heard or read no such connocation until I read the Joint Staff response last week.

NEED FOR MORE EQUAL SERVICE INVOLVEMENT IN THE VARIOUS UNIFIED COMMANDS

The current manning of the Unified Command Headquarters by the related Military Service component Commands does not provide anything like "equal" Service interest and involvement. For example, the "unified" U.S. Transportation and U.S. Space Commands appear to be largely "Air Force" operations. The Navy has historically attempted not to rely on the Air Force Military Airlift Command, operates its own Space Command, and was violently opposed to giving effective operational control of the SEAL teams to the Commander in Chief, U.S. Special Operation Command. The Navy inability or unwillingness to rely on the Military Airlift Command for its airlift support has, over the years, played no small role in creating a significant Navy-dedicated airlift structure. To some extent, a similar situation existed with the Army, which had to rely heavily on the Military Airlift Command to provide the "go to war" transportation, but was not a part of the management structure. After two decades of frustration over ineffective mobilization planning, the failure of the Army and Navy to become deeply involved in the Air Force Military Airlift Command and the failure of the Air Force and Army to play any significant role in the Navy Military Sealift Command caused the creation of the Joint Deployment Agency.

In order to ensure that each Military Department has a significant interest or stake in each supporting, non-theater Unified Command and becomes an active player in this partnership, I recommended that a basic ground rule be established requiring that each Military Department must provide at least 25 percent, but not more than 50 percent of the headquarters manning of an Unified Command Headquarters. The Joint Target Planning System is an excellent example of how this approach can and does work effectively, with all three Services participating to an effective degree.

It is also important that the dominant Service not always have or be assured of having the four star commander position. For example, one can envision over the years as parts of the Strategic Defense Initiative becomes operational that the Army will have a much larger interest in the space mission. The Navy already has a strong interest. Each of the Services should be preparing a general officer or officers to compete for selection as the United States Unified Commander for space activities--it should not be considered an "Air Force" position. Having commanders of the supporting, non-theater Unified Commands come from different Services would also ensure that these commanders are not "captives" of the Military Departments.

LAYERING OF BASE OPERATIONS MANAGEMENT

During the field visits, the Study Team gave special attention to identifying overlapping responsibilities, duplications of functions and excessive layering of organizational echelons in base operations. Organizational, management and command relationships differ among the DoD components, as do Service philosophies for developing and implementing policies and programs. For the most part, these differences are understandable and there is no need to standardize organizations. However, in certain functional areas, namely base operations support (which includes quality of life, community affairs, equal opportunity, family housing, morale, welfare and recreation activities, education programs, military and civilian personnel management, physical security, facilities construction and management, and medical services), this is not the case.

I concluded that major manpower savings could be achieved by applying a few simple managerial concepts and implementing already existing DoD installation management policy--i.e., by minimizing layering of management and oversight and pushing authority and resource responsibly down to the lowest feasible levels. This is particularly true when the additional management layer is located at a "fighting command," and commanders must devote time and resources to oversee housekeeping and support functions, rather than focusing on their war fighting mission. Most of the base operations support services are delivered at the base or community level. Responsible commanders at the local level should be better able to establish priorities and allocate resources within their areas of responsibility.

A glaring example of the problem is the organizational and management relationships within the U.S. Army Europe and the Eighth U.S. Army Korea. I concluded that over 1,000 billets could be eliminated from middle management in these two organizations and subordinate headquarters alone. It appeared that many field grade officer positions and mid-level civilian personnel positions were "justified" by the layering of supervision related to base operation support activities.

An example of what I consider to be a sound alternative for providing base operations support and qualify of life services was found in Hawaii. The U.S. Army Support Command Hawaii provides base operations and quality of life support to the entire military community located at 29 installations throughout the Hawaiian Islands, Johnston Island, Guam, Saipan and American Samoa. At the time we did the review, a population of about 90,000 (including active duty military, their dependents and civilian employees) was being supported by a total work force of about 4,000 (a ratio of about 2 to 45). In comparison, the Eighth U. S. Army Korea, where the majority of personnel are on a 13-month remote tour--a work force of about 16,000 was providing roughly equivalent support to a similar population of about 45,000 (a ratio of 16 to 45). In Korea, the Army had an excess of 1,700 management personnel providing headquarters management for base operation functions above the community level. I concluded that the "single support command" concept, as used in Hawaii, had the potential for major manpower savings in both Germany and Korea.

In its initial response, the Joint Staff disagreed, claiming that the situations were much different in Germany and Korea. However, former Secretary Carlucci accepted the principle that base operations management should be executed at the lowest (base/community) level possible, with a minimum of intervening management oversight, and directed that reductions be made in this area. I understand that the Army is in the process of establishing a Support Command in Europe, similar to that now functioning in Hawaii, and is also considering a similar structure for Korea. This is progress and the Army is to be commended.

EXCESSIVE MANPOWER EXPENDED ON OPERATIONAL PLANNING.

Throughout the course of the review, headquarters staffs involved in intelligence, operations, logistics, policy and plans justified much of their staffing on the need to write, rewrite, and keep current, existing Joint Chiefs of Staff operational plans. This planning function is performed by Unified, Specified and Component Command headquarters, and proved to be the most difficult function to assess. Although it was not possible to develop the specific number of many years involved in this type of planning, it was obvious that several thousand were justified on this basis. Our review of the work products (and the reactions of auditors who have examined these plans from time to time) were useful in attempting to understand how much effort is actually expended on maintaining the plans. I concluded that (1) more time is justified against these plans than is actually spent on them and (2) more time is actually spent on the plans than needs to be.

The plan development process that goes on at all levels from the Joint Staff down to the Army brigade and the Air Force wing level, provides an excellent training regimen, since it is a relatively short step from taking a well-developed plan and converting it into an operations order. During the course of the review, I also reached the conclusion that, based on the detailed briefings provided at each command with respect to their wartime mission, a lot of the disconnects in terms of tagging various units to support many sometimes disparate operational plans have been largely eliminated. At a minimum, I received the clear impression that the situation was much improved over what it was in the mid-1970s.

The principle issue seemed to me to be to what level of detail these plans must be developed and how far up the chain of command the underlying details need to be provided. The operational plans are basically defensive and reactive in nature and, therefore, are not likely to be useful at lower operational levels much beyond the first few days of a conflict. The planning process has a greater benefit if we can keep it flexible, so our forces are able to react quickly and are able to adjust to necessary changes rapidly. I was told that the Department had or would soon have the ability to be able to make rapid reconfigurations of airlift and sealift allocations to fit changing situations--through the use of new, very elaborate software programs. This was good news, but also reinforced my conclusion that excessive number of many years is being spent on planning within the various commands.

- **Shortcoming in Overall Planning Process**. A key shortcoming in the overall planning process is the lack of review of operational plans at higher levels within the Office of the Secretary of Defense. The Joint Staff takes the absolutely rigid position that only the Secretary or Deputy Secretary (personally, on an "eyes only" basis) can review such plans. It is my understanding that, because of this narrow review process, specific plans and their configurationS are not necessarily written or updated to conform with the annual Defense guidance, nor are the plans checked by any knowledgeable component of the Office of the Secretary of Defense when updating does occur to ensure that the operational plans are in compliance with the guidance. Somewhere in the process, Defense guidance and the Joint Staff planning process must be integrated. In order to accomplish this objective, it requires an expanded access to the operational plans by key elements of the Office of the Secretary of Defense. The principal roadblock to attaining this objective is Memorandum of Policy 39, as established and implemented solely by the Joint Staff.

Obviously, we need to have a corpus of personnel in each headquarters able to develop and write operational plans and operational orders rapidly. As one commander expressed to me, however, we have had the Joint Chiefs of Staff operational plans in existence for several decades, but not one has ever been used. On the other hand, we have had nearly 100 instances in which the United States Armed Forces had to respond or react quickly and, generally, it has been accomplished with much smaller staff participation than is routinely used for updating the long-standing operational plans. I concluded that manpower reductions could be made in the planning process--(1) by reducing the amount of detail passed up the line, (2) by ensuring guidance consistency (which clearly must be tied to overall Defense guidance), and (3) by increasing the use of modern computer technology. I conservatively estimated that at least 400 planning positions were in excess of real need. I believe that the Secretary agreed when he directed a general management reduction of 1,500 personnel.

THE JOINT STAFF

A reorganization of the Joint Staff was implemented throughout 1987 to respond TO the requirements of the Reorganization Act. At the time of the review, the new Joint Staff organization had not completely adjusted to the reorganization and continuing problems were observed. For example, the coordination process had been improved "on paper"--primarily because an action no longer requires unanimous Service agreement before issue packages can be presented to the Chairman and the Joint Chiefs of Staff for a decision. The actual Joint Staff staffing/coordination structure is, however, still basically the same as the old system that was in place prior to the Act--a system designed to serve the corporate Joint Chiefs of Staff (and, indirectly, the Military Departments), not the Chairman (and, ultimately, the Secretary of Defense). In discussing the Joint Staff organization with a key author of the Act, a strong point was made that (1) the Joint Staff needs to change philosophically, (2) the decision process inside the Joint Staff must be speeded up, (3) the Service headquarters are still too powerful in comparison, and (4) Unified Commanders need to be more involved in planning, programming and budgeting. While the changes initiated thus far by the Joint Staff appear to be in good faith and in the right direction, the changes have amounted only to incremental adjustments to previously existing policy, procedures and documents and have not been sufficient to reverse the ways that personnel in the Defense establishment view the Joint Staff. Furthermore, some of the changes that were made appear to have added management layers, dispersed and fragment responsibilities, and complicated and confounded relations, and made command span of control more, not less, cumbersome.

It appears that the Joint Staff initiated the reorganization before fully understanding its new role and mission and before objectives, internal and external relationships, and management process and responsibilities had been carefully considered in light of the Goldwater/Nichols Act. At least at the time of the review, neither a new Joint Staff charter nor a mission statement had been prepared. The question also must be raised as to whether the Joint Staff can be an objective judge of its own strengths, flaws and needs. In any case, at the current rate of change, it will literally take years and years to bring the Joint Staff into line with congressional direction and intent.

I, therefore, recommended that an independent, external to the Joint Staff, project team be established to set new directions, develop a charter and recommend the context for a complete reorganization of the Joint Staff that will best serve the Chairman and the Secretary of Defense and bring the organization into compliance with the Act. At the time I made the recommendation, I suggested that such an independent team should report to the Secretary of Defense and/or the Chairman. After having observed the manner in which the study of the Unified and Specified Command Headquarters was handled by the Joint Staff, I now believe such a team must report directly to the Secretary of Defense. The independent team should be comprised of individuals who are knowledgeable of the DoD organizational structures and staffing relationships, plus the Reorganization Act. Such a team should be headed by a strong chairman and comprised of both civilian and military. However, current active duty members of the officer corps, particularly those currently assigned to the Joint Staff or a Service headquarters, or who otherwise represent special interests, should be excluded. As a part of the charter, the special external project team should:

- Examine how resources and warfighting decisions should be made.

- Propose precise roles, missions, and functions of each headquarters management structure.

- Eliminate layering and redundancy, with strong emphasis placed on complementarity, cost-effectiveness, and timeliness.

- Consider alternative functional and organizational arrangements, and how information technology can best facilitate and favor new, efficient, and timely management and command decisions processes. (Such a special review should not be constrained by tradition.)

- Clarify the involvement of the Joint Staff, the Unified and Specified Commands and the supporting Service commands in the Planning, Programming, Budgeting System.

- Decide what missions and tasks are best performed by each Department of Defense component: the Office of the Secretary of Defenses, the Joint Staff, the Unified and Specified Commands, the supporting commands, the Service headquarters staffs, field operating activities, etc.

- Identify redundant and parochial organizations (including manpower authorizations, charters and contracts) and propose ways to consolidate responsibility.

- Propose options for the Service headquarters to modify, combine, and consolidate their organizations to complement the Joint Staff.

While there were numerous other recommendations related to the Joint Staff operation, there is one additional that is absolutely essential if the Joint Staff is to fully implement the Reorganization Act and become an integrated member of the Department of Defense community--that is the abolishment of the Joint Staff Memorandum of Policy 39 (discussed above as an obstacle to consistency and integration of the operational planning process). The Joint

Staff should be required to follow DoD Directive 5158.1 in its release of documents to the Office of the Secretary of Defense (and establish similar procedures for releasing Joint Staff documents to the Services).

These recommendations were not accepted. It was the Joint Staff view that the Study Team went beyond its charter in its review of the Joint Staff. I disagree. It is also my view that, without implementation of at least these two recommendations, the Joint Staff will continue to stonewall change.

THE UNIFIED COMMANDER'S ROLE IN RESOURCE ALLOCATION

The review of the headquarters structure of the Unified and Specified Commands and the component commands provided a window for me to observe that the degree of authority granted to the Unified Commands and that which is actually exercised by them, is not in keeping with the responsibilities given them and with the authorities they can legally exercise under Title II, "Military Advice and Command Functions," of P.L. 99-433. Clearly, progress has been made in this resource allocation process, as reflected by the Integrated Priority List process and the (albeit limited) reorganization of the Joint Staff. More needs to be done in both areas, especially organizing the Joint Staff to enable the Chairman to receive the best military advice available that is not unduly enmeshed in parochial Military Department concerns.

There continues to be resistance within the Department to allowing the Unified Commands more authority within the planning, programming and budgeting process. There is legitimate concern that the process could become very unwieldy and fragmented and the Secretary of Defense could lose control of probably his most important function--resource allocation. There are, however, several alternative approaches to accomplishing this objective and still retain the appropriate controls for the Secretary. They are discussed in the report and I will not belabor them here. My point is that the Unified Commanders have to be given a greater voice in resource allocation and the Chairman of the Joint Chiefs of Staff must take a more aggressive role in this process. As of the time of the review, it appeared to me that more could be done to implement this particular objective of the Defense Reorganization Act. I am prepared to pursue this matter further, should the Committee desire to do so.

UNIFIED COMMANDS GEOGRAPHICAL AREAS OF RESPONSIBILITY

The Study Team review of the Unified and Specified Command structure also required reviewing the current Unified Command Plan. It is my opinion that more needs to be done to bring about more reasonable determinations of geographical areas of responsibility.

- Changes in Area of Responsibility for the U.S. Central Command, the U.S. European Command and the U.S. Pacific Command. I recommended that the responsibility for Africa (except for those countries bordering the Mediterranean) be transferred to the U. S. Central Command from the U.S. European Command. The demands of the region put the U.S. Central Command in daily touch with the Continent's challenges and give it the potential of establishing meaningful international relationships. The U.S. Central Command is accustomed to dealing with the differences in Third World nation priorities, language, culture, economic conditions and social mores. The U.S. Central Command is currently responsible for six countries in Africa: Egypt, Ethiopia, Somalia, Kenya, Sudan, and Djibouti. The U.S. Central Command also manages the bulk of the security assistance funding on the Continent of Africa--$1.3 billion in FY 1987. If security assistance is seen as a necessary ingredient to enhancing cooperative defense and region stability, then the U.S. military establishment must help forge a cohesive strategy. The proposed realignment would help to further consolidate DoD planning and operations for Africa.

In addition, it is my view that such a realignment would provide closer symmetry between the mission and functions performed by the U.S. European Command and the North Atlantic Treaty Organization Headquarters. It would further reduce North Atlantic Treaty Organization ally fears that the U.S. plans and executes military operations from their sovereign territory.

In addition, I recommended that the issue involving the current area of responsibility for sea boundaries for the U.S. Central Command be resolved on a more permanent basis. The operational control of naval forces operating in support of the U.S. Central Command was not relinquished by the U.S. Pacific Command until the establishment of the Joint Task Force Middle East, about the time the review was conducted. This effectively extended the Central Command area of responsibility into the Gulf of Oman. The current boundaries between the U.S. Central Command and the U.S. Pacific Command do not, however, recognize potential hostility zones (military fronts) and support facilities essential to U.S. Central Command's effective operation. For example, the island of Diego Garcia is outside the Central Command area of responsibility. This should be changed. The island is pivotal to the Central Command Operations in S.W. Asia. The Navy position that only the U.S. Atlantic Command or the U.S. Pacific Command can have operational control of Navy forces and/or that naval forces can only be under the command of a Navy flag officer is no longer valid and cannot be permitted to continue to interfere with reasonable determinations of Unified Command geographical areas of responsibility. The overriding consideration must be U.S. security needs and the appropriate operational control of forces--not Navy tradition.

While the most critical aspect of the situation was adequately resolved for the time being with the creation of the Joint Task Force, I believe the Joint Task Force Commander should serve as the Navy Service component command for the U.S. Central Command and so recommended.

- Command Structure for Alaska and the Aleutian Islands. The responsibility for the air defense of Alaska and the Aleutian Islands and ground defense of the Aleutians is extremely confusing, probably will not work in an emergency, and should be corrected. Currently, the principal responsibility resides with an Air Force lieutenant general in Alaska, wearing one of several hats, depending on the situation. For example:

  - If there is a military operation in which Canada participates, the responsibility is exercised as the North American Aerospace Defense Command Sector Command.

- If Canada does not participate, then the Joint Task Force Alaska is activated. The Commander, Joint Task Force Alaska, operates much like a Unified Commander--the chain of command is through the Chairman, Joint Chiefs of Staff, to the National Command Authority. The Alaskan Air Command (which the Air Force General also commands) "chops" to the Joint Task Force, as does the Army division in Alaska.

The responsibility for the ground and sea defense (excluding air) of the Aleutians is assigned to the Joint Task Force Aleutian, when activated. This task force reports to the U.S. Pacific Command. The Commander is an Army National Guard brigadier general. The Naval component commander is a 3rd Fleet asset, designated as Commander, Maritime Defense Section Aleutian. Elements of an active Army division stationed in Alaska would provide ground defense of the Aleutians until relieved by Guard/Reserve forces. Any Navy assets would presumably be "in support" elements of the U.S. Pacific Fleet and would not be "chopped" to the Joint Task Force commander. In essence, the Joint Task Force is primarily ground forces, but elements would require substantial lift from the U.S. Transportation Command.

Please note that this places the main part of Alaska and the Aleutians Islands under two different command systems, both of which are somewhat contrived.

The Goldwater-Nichols Defense Reorganization Act dealt with this topic, requiring a review of the command structure for Alaska and repealing a 1985 prohibition on changing the command structure. However, Senator Stevens countered by including a provision in the Department of Defense Appropriations Act, 1987, which prohibited the expenditure of any funds to change the Alaskan command structure. The current situation is not only confusing and unacceptable, it is not likely to work and there probably will be a lot of finger pointing if war or a major incident occurs in that region of the world. The report recommended a subunified command under the U.S. Pacific Command as the best way to resolve the Alaska situation. The Department and the Congress must work together to resolve this situation.

U.S. FORCES COMMAND

The Study Team found that the missions transferred from the deactivated Readiness Command are not of sufficient criticality to warrant the additional manpower and materiel resources that are needed to establish a specified command. Virtually all of the mission statements of the headquarters functions place an inordinate emphasis on taskings that have traditionally been given a low threat assessment by the National Command Authority and to which the Forces Command, itself, gave its lowest management priorities. The priorities are correct--however, the staffing levels do not reflect the priorities. Further, if designation of Forces Command as a Specified Command is appropriate, why then is not the Tactical Air Command also designated a Specified Command? Both commands include the "defense of the continental United States" in their missions and both commands play essentially the same role in preparing (training), allocating, and deploying combat and combat support units to other Unified Commands. What is appropriate for one should be equally appropriate for the other, but that is not the case. I recommended that the U.S. Forces Command be returned to its status as a U. S. Army supporting command, which would have eliminated about 30 personnel.

In addition, the continental United States and Alaska missions assigned to the U.S. Forces Command are so ill-defined, no Army resources should be dedicated to them until the National Command Authority clarifies the Department of Defense role.

U.S. FORCES CARIBBEAN

The U.S. Forces Caribbean is a subunified command under the U.S. Atlantic Command and is located in Key West, Florida. This command was established by a prior Administration as a response to reports of a Soviet brigade in Cuba. In today's environment, the command must be placed in the category of nice to have, but clearly not essential to either our peacetime or wartime needs. During actual operations, such as those in Grenada, this command played no role at all and I could not find a single contingency in which this command would take responsibility for any size military operation (other than for a minor noncombatant evacuation order when conducted under peacetime conditions). I recommended that this command be disestablished and its functions returned to the U.S. Atlantic Fleet, where they resided prior to 1980. The recommendation was adopted.

STRATEGIC AIR COMMAND AIR DIVISIONS

The Strategic Air Command (SAC) Air Division located within the continental United States are largely superfluous to the Strategic Air Command peacetime operations or the ability to carry out the its strategic mission. These Air Divisions also fall in the "nice to have" category, but are not necessary. Accordingly, I recommended the disestablishment of the eight SAC Air Divisions Headquarter located within the United States. Elimination of these Air Divisions will reduce layering and duplication of functions, but will not impact the control of operation forces. Unlike the other command reorganization situations, the Strategic Air Command was supportive with this and other recommendations, which will eliminate some 230 positions.

OTHER ISSUES FOR FUTURE STUDY

During the course of the review of the Unified and Specified Command Headquarters, several issues emerged which I believe warrant further study. The following discusses some of these.

- Definition of Headquarters Staff. The definition of headquarters, as set forth in applicable DoD Directive 5100.73, allows significant understating of the number of personnel that directly support the headquarters and which are, in fact, actually a part of the headquarters, This is accomplished by describing those positions as operations support or placing them in direct reporting units that report to a staff office, not a commander. This causes the statement of headquarters personnel appearing in Department of Defense budget justification (Exhibit PB-22) to understate and mask the true headquarters manning. The Directive needs to be changed so true headquarters strengths are reported to the Congress.

- Zero-Based Approach to Headquarters Manning. The Joint Staff needs to adopt a zero-based approach to headquarters manning. When conducting a manpower survey, the first question that needs to be asked is whether or not the work needs to be done at all, not accepting (at face value) that the function is necessary and simply determining how long the individuals are taking to do it. The second question that needs to be asked is whether or not individuals are efficiently pursuing the required work. The third question is whether the function duplicates work in another unit or command. Further, considering the fact that virtually all Unified and Specified staffs have the same basic structure and the same general functions, it should be possible to determine a uniform requirement for the work to be done. This needs to be zero-based by the Joint Staff to ensure that every position is required and not performed by someone else higher or lower in the command structure--rather than the approach being used at the time of the review, which assumed the status quo was efficient and merely determined that every position actually existed and included an individual working eight or more hours per day on some endeavor regardless of what.

- **Review of Other Headquarters.** Under the charge from the Secretary of Defense, my study only included the Unified, Specified, Component and North Atlantic Treaty Organization Commands. Because of that, numerous other command headquarters were excluded, such as the Military Departments' systems, logistics and training commands. The North Atlantic Treaty Organization commands were not reviewed because of access problems discussed in the report. While the Unified and Specified Command Study represents a start at reducing overlap and duplication, we observed several other potential opportunities for manpower and cost savings. Among several others, I recommended that the Secretary of Defense direct a review of the security assistance process, in particular. We identified what appears to be considerable overlapping of functions in that area between the State Department, the U.S. Embassies, the Defense Security Assistance Agency, the Military Departments, the U.S. Military Assistance Groups, various in country security assistance offices, and attache' offices. In addition, I recommended that the Reserve component management structure also undergo a critical review.

GENERAL CONCLUSIONS

Obviously, I did not attempt to comment on every issue or recommendation contained in the report. Copies of the full report are available for anyone who wants one. The report is 325 pages long and includes a lot of background information, in addition to many more specific observations and recommendations. In addition, an excerpt from the report is attached to this statement, which shows (by command) each recommendation that directly impacted manpower, including the related recommended manpower reductions. I do, however, want to offer a few general observations.

I was gratified by Secretary Carlucci's decision to direct such a study and to implement a Unified and Specific Command Headquarters reduction of about 3,000 billets. This is an accomplishment and was very responsive to two of the major findings dealing with base operational support and planning.

We are, however, still left with most of the major recommendations dealing with organizational structure and command areas of responsibility not being implemented. It is my view that, without these changes, the possibility of any long term manpower savings and organizational efficiencies are unlikely. We have to change the way we do business--and I do not see that the Department is willing to take this on. Even with the Defense Reorganization Act, progress has been slow in many areas.

Despite the unavoidable recognition that Department of Defense resources are constrained and can be expected to become more so during the next few years, neither during the review itself nor in the Joint Staff/Commands response have I seen anything that indicates there is a commitment to other than the status quo. If mandated to accept change, it is done grudgingly and at the most minimum level. There apparently is little incentive for innovative thinking or action.

* * * * *

I would like to close my testimony with a quote from the November 1988, Center for Strategic and International Studies report, Making Defense Reform Work (A Report on the Project on Monitoring Defense Reorganization), which was jointly chaired by Harold Brown and James Schlesinger, both former Secretaries of Defense. They concluded their report by stating:

> "The next secretary of defense and the chairman, with the help of their respective staffs, must tackle this problem head-on [defense reform]. They should adopt the streamlining of the defense bureaucracy as one of their highest priorities. This is not just a matter of reducing the size of staffs to save costs. Their purpose should be

to root out unnecessary intermediate levels of bureaucracy wholesale. On the operational side, for example, a February 1988 internal defense study of the Joint Staff and the headquarters of the unified and specified commands, including their component commands, found 'significant areas of overlapping responsibilities, duplication of functions, layering, and opportunities for saving manpower.' It concluded, among other things, that 'there is no need for a Military Department supporting command for each and every Unified Command in the structure' and recommended 'the elimination of service component commands for the Unified Commanders not having geographical areas of responsibility.'

"Although we are not necessarily prepared to endorse the specific conclusions of this one study, we believe that it illustrates the type of work that is necessary and the kind of conclusions that are likely to emerge. The acquisition bureaucracy is likely to provide even more lucrative targets for streamlining than the operational bureaucracy. The necessary studies should be completed early in the new administration, and the secretary and the chairman should be willing to devote considerable effort to making sure that their findings are implemented comprehensively. The Congress should support these efforts, giving the secretary the necessary flexibility to implement far-reaching reform"

* * * * *

That concludes my statement. I will be glad to answer questions.

RECOMMENDED PERSONNEL REDUCTIONS AND ASSOCIATED MANAGEMENT SUPPORT CONTRACT SAVINGS

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
A. JOINT CHIEFS OF STAFF		
Office of the Chairman, JCS	20	
Joint Staff	250	
Target Planning Staff - Unfilled Authorized Billets	16	
Subtotal, Joint Chiefs of Staff	286	
B. U.S. ATLANTIC COMMAND		
Operational Planning Billets	100	
Merge Intelligence Activities	150	
Duplicate Watch Standers	25	
Disestablish U.S. Forces Caribbean	99	
Disestablish Caribbean Joint Intelligence Centers	21	
Disestablish Joint Air Reconnaissance Center	30	
Disestablish Atlantic Training Command	41	
Terminate U.S. Atlantic Fleet Contracts		$2,800
Disestablish Naval Activities Caribbean	41	
Subtotal, U.S. Atlantic Command	507	

EXCERPT FROM FEBRUARY 1988
REPORT: REVIEW OF UNIFIED AND SPECIFIC COMMAND HEADQUARTERS

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
C. U.S. CENTRAL COMMAND		
Consolidate Operations with Plans and Policy	34	
Combine Special Fusion with Intelligence Directorate	2	
Eliminate Special Command, Control & Information Systems	1	
Subtotal, U.S. Central Command	37	
D. U.S. EUROPEAN COMMAND AND NORTH ATLANTIC TREATY ORGANIZATION		
Consolidate Indicators and Warning Centers	35	
Reduce 24-Hour Watch Positions	20	
Consolidate Joint U.S. Military Group, Spain	23	
Abolish Contact Office Turkey	17	
U.S. Army, Europe		
Reduce 24-Hour Watch Positions	20	
Realign Base Operations Management and Oversight	550	
U.S. Navy, Europe		
Eliminate Headquarters	238	
Eliminate Fleet Operations Control Center	84	

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
U.S. Air Forces, Europe		
European Personnel Center	80	
Inspection and Safety Center	31	
Eliminate 7055th Operations Squadron	66	
Eliminate 7000th Special Activities Squadron	37	
Ground Launched Cruise Missile Spaces	35	
Airlift Control Center Positions	24	
Operations Support Center-24-Hour Watch Positions	20	
Management Support Contracts		3,700
North Atlantic Treaty Organization		
Consolidate U.S. Delegation and U.S. Mission	40	
Subtotal, U.S. European Command and NATO	1,320	3,700
E. U.S. PACIFIC COMMAND AND U.N. COMMAND, KOREA		
Create Dual-hat Positions at U.S. Pacific Command and U.S. Pacific Fleet	110	
Merge Intelligence Organizations in Oahu	500	
Consolidate Operational Planning Under Unified Commander	70	

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
Eliminate Excess Staff Billets	31	
Western Army Command		
Abolish Command	467	
Logistics Command Pacific		
Eliminate Command	66	
Data Processing Service Center Pacific - Reduction	11	
Training Command Pacific		
Eliminate Command	68	
Fleet Intelligence Center Pacific		
Realign Intelligence Production Department	34	
Pacific Air Forces		
Deputy Chief of Staff-Operations	50	
Deputy Chief of Staff-Plans	40	
Deputy Chief of Staff-Personnel	44	
Deputy Chief of Staff-Logistics	60	
Engineering and Services Group	100	
U.S. Forces, Japan		
Eliminate Army IX Corps	25	
Disestablish U.S. Naval Forces Japan	73	

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
U.S. Forces, Korea		
Reduce to Shell Organization	168	
U.S. Eighth Army and Support Elements		
Realign Base Operations Management and Oversight	500	
Subtotal, U.S. Pacific Command and UN Command, Korea	2,417	
F. U.S. SOUTHERN COMMAND	-	
G. U.S. SPACE COMMAND AND NORTH AMERICAN AEROSPACE DEFENSE COMMAND		
Watch Standers	28	
Air Force Space Command		
1st Manned Space Flight Squadron	83	
Shift Training to Combat Crew Training Squadron	11	
Unified Command Manpower Savings	341	
Naval Space Command		
Management Support Contracts	-	1,300

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
North American Aerospace Defense Command		
Watch Standers	11	
Subtotal, U.S. Space Command and NORAD	474	
H. U.S. SPECIAL OPERATIONS COMMAND		
231 transfers in from Military Services only	-	
I. U.S. TRANSPORTATION COMMAND		
Unify Military Traffic Management Command with Transportation Cmd	193	
Unify Military Sealift Command with Transportation Cmd	202	
Unify Military Airlift Command with Transportation Cmd	620	
Subtotal, U.S. Transportation Command	1,015	
J. FORCES COMMAND		
Disestablish as Specified Command	300	
Reduce Overlap between FORSCOM and CONUSA's	300	
Subtotal, Forces Command	600	
K. TACTICAL AIR COMMAND		
Consolidate Combat Operations Staff	300	

	Potential Military and Civilian Total	Management Support Contracts ($Thousands)
Disestablish Air Defense Combat Operations Staff	121	
Subtotal, Tactical Air Command	421	
L. STRATEGIC AIR COMMAND		
Eliminate Air Divisions - Continental United States	130	
Eliminate Pacific Operational Liaison	17	
Eliminate Rather Than Convert Positions	85	
Subtotal, Strategic Air Command	232	
GRAND TOTAL, ALL COMMANDS	7,309	

Estimated Savings in FY 1990: $336 million

Estimated Savings, FY 1990-1994: $1.7 billion

Mr. HUTTO. All right. Thank you very much, Mr. Vander Schaaf, for your testimony.

The statements from the OSD and the Joint Chiefs witnesses, which we will hear about, are vague about what actually happened because of your report. Apparently 2,990 spaces were affected with 2,244 of them redirected to combat and medical units, and only 746 spaces actually eliminated.

I think we had some testimony this morning regarding that.

Do you know where the original 2,990 spaces came from? For example, were any general officer billets affected? Do you know how the redistribution took place, if any commands were disestablished, and so on?

Mr. VANDER SCHAAF. No, I do not know the details of that, Mr. Chairman. I tried to stay out of that to a large extent. In fact, after I turned the report in to Secretary Carlucci early February, I stayed away from it for the most part.

I do know for a fact that we had recommended for about fifty-one general officer positions to be abolished. I do not think there are any general officer positions that are proposed to be eliminated in the process—in the 3,000—but you should ask the representative from the Joint Staff and from the Office of Secretary of Defense about the details, because I just am not familiar with it.

Mr. HUTTO. OK. How about in the 7,000, how many general officers?

Mr. VANDER SCHAAF. I do not think there are any in that process. I would be surprised if there were any because of the way the reductions were taken.

I may prove to be wrong on that, but I do not believe any—we went through a pretty detailed review, and we pinpointed fifty-one general positions, I believe. I think there were 10 three stars and 14 two stars, and the rest were one star positions.

The Department, as far as I am concerned, put those elsewhere. They may be used. There was a study called "The Hays Study", I believe it was referred to, which said that we have about 1,100, I am talking round numbers, general officers and I think that study concluded we need about 1,450 general officers.

Frankly, when I took a hard look, I concluded that we could probably do with about fifty less in those commands we looked at, but that does not mean there are not other positions where general officers could be used.

Also, with respect to transferring the savings from this into combat or medical support units, I have no problem with that. I heartily endorse that, Mr. Chairman. I do not have any difficulty with that at all.

That is a different issue. It is certainly something that I did not deal with in this report.

Mr. HUTTO. The OSD and Joint Staff witnesses claim that your report goes far beyond the charter given to you by the Secretary. I think you touched on this, but do you agree with any of this assessment, or do you believe that the Joint Staff has adequately explained their position on your recommendations?

Mr. VANDER SCHAAF. Well, I do not think they have adequately explained their position. They have not explained it to my satisfaction. I recognize that reasonable men can disagree about these things. There is no right or wrong to this business. I had the first opportunity to look at the Joint Staff response, the one they did last summer, and they may have revised their opinion as well.

But I thought there were some statements in there to me that were just inappropriate. There were some inferences that we were recommending the elimination of service component commands for every command, and that they had to organize the way they were by law, and things like that. The fact of the matter is we did not eliminate a single function.

All we looked at were functions at various levels of command up and down the command chain and said some of these functions can be done above or below where they are currently being done. They do not have to be done at every level up and down the chain.

So, the Joint Staff will have to speak for itself in their response. I let my report stand. I have not had any real complaints from anybody.

As a matter of fact, I have had a couple of very high-ranking officers who obviously do not want to be mentioned by name who have come to me and said, hey, that was a great job. It is what it takes, and I read to you when I finished the statement from a report that Harold Brown and Jim Schlesinger put together and they were chiefly responsible for that report. Exactly what role they played in it, I do not know, but they certainly quoted the concepts that we had brought to bear in this report, and said if we are going to get anywhere with this headquarters management problem, we have got to deal with it in this wholesale kind of method. We cannot deal with it line by line.

I think that is where the JCS said I went beyond my statutory commission from the Secretary. They thought I was going to try to look at each individual in the structure and see if that individual worked 8 hours a day.

Well, I know that individual is out there working 8 hours a day. Many of them are working 16 hours a day. That is not the pertinent question. The question is what they are doing. Is it worth doing, is it adding to the product, is it improving the product, is it improving our defense structure, and if it is not doing that or if somebody else is doing it above or below and repeating it, then we do not need them. That is the kind of issue that I went after, and I think they think I went beyond my charter. When I looked at such issues and found inconsistencies in their command plan. For example, certain geographical commanders do not get the same degree of service component support that other geographical commanders get, and I am referring to CENTCOM, in particular.

So, those are the issues, but I felt they did not look at the whole thing. If I did not take a bigger, broader review, I would not get anywhere. I would just end up with onesy and twosies, having a manpower kind of study that the Joint Staff has done regularly. You merely say is everybody working out there, and the answer comes back, yes. So, it must be all right.

Mr. HUTTO. Mr. Kasich and I have had a special interest in special operations forces for the last number of years.

You touched on your recommendations there. Would you explain them a little more? Your recommendations regarding the CINC-SOC?

Mr. VANDER SCHAAF. We did not have a lot of recommendations regarding CINCSOC. We recommended an increase in the strength of the CINCSOC headquarters. I think it was 241 people, and the Secretary implemented that right away. He did that in March of last year.

We also recommended that CINCSOC be given control over the training functions, the schools, if you will, and that decision was made. I did not recommend but addressed this issue of resource allocation. How should CINCSOC control the resources?

In the end, I believe that if you make SOC, Space and Transportation truly unified commands, you would have to change the resource allocation process within those commands.

I do not believe that you need to give them total budgetary control of the investment accounts, but the Department has gone even further and I believe, about a month ago, Secretary Taft made a decision to give CINCSOC control of the R&D and the procurement accounts as well.

I am not convinced that that is really necessary, but I was convinced that they had to have programming control of certain program elements, certain operations and maintenance elements, and recommended that we establish a new O&M account called "operations and maintenance support, for unified commanders". Those unified commanders then would have their own appropriations just like we have for operations and maintenance defense agencies.

So, I would think the Congress would want to rectify this. Operations command would not have a great deal of argument with my recommendations.

Mr. HUTTO. Well, I must say we have some arguments.

Mr. VANDER SCHAAF. All right. Let us get into those.

Mr. HUTTO. I know we do. I am sure that you are aware, Mr. Vander Schaaf, that special operations has been a low priority with our services over the years, and one only has to look at what is happening in the world today to know that we are not ready to meet any act of terrorism. We have had terrible failures in this area.

When we have had budget cuts, SOF was the first to go. So, if we are going to be prepared for what is the most likely eventuality, you have to give them the resources to do it, and the services have not done that. That is the reason for giving a budget authority to special operations. They have to do the job. We have to give it to them.

Mr. VANDER SCHAAF. I have made no recommendations in here, Mr. Chairman, that took any budget authority away from them. In fact——

Mr. HUTTO. I know, but I thought you just said a minute ago that you did not think that was necessary.

Mr. VANDER SCHAAF. I do not think it is essential that they have budget authority of the investment accounts. I think it is essential that they have control of the operating accounts.

I gave three different options in the report from where they could come. One, I called defense agency kind of authority, in which case, the unified commander would control the investment accounts and the operating accounts, both from the programming side and from the budget or appropriations side. That is essentially the position that the Congress wants with respect to CINCSOC, and that is the position that Secretary Taft has, in fact, implemented, to the best of my knowledge.

Now, I do not think you have to go quite that far in order to make the unified commander effective. I do think you have to go about that far with the operations and maintenance appropriation, but not with the investment appropriations.

So, that is the only difference that I have with you.

Mr. **Hutto**. Well, all I can say is if Congress had not mandated it, they would not have the resources that——

Mr. **Vander Schaaf**. I do not disagree with you a bit there, sir.

Mr. **Hutto**. Mr. Kasich.

Mr. **Kasich**. Derek, as always, it is good for you to be here today, and I want you to know, and I want your secretary and your aide to know, I do not understand why they are not at the table, Derek, and you are sitting in their chairs.

Second, you should give that lady a raise.

I intend to do something legislatively with this report. If I cannot do it in committee, I will do it on the floor. Let me tell you why I say that.

It has become increasingly apparent that people do not want to make choices. We know we have fewer dollars over the next 4 or 5 years. We have all these responsibilities, and my view is weapons systems have to be eliminated, the force structure has to change. Probably we do not have the guts to make those major decisions, but this is kind of a subheading under the change of forces.

I am very disappointed in two things. Number one, you did not cut any generals, and, number two——

Mr. **Vander Schaaf**. Wait a minute. Wait a minute. I recommended the reduction of fifty-one generals.

Mr. **Kasich**. OK.

Mr. **Vander Schaaf**. But the Department, when we recommended reductions of 7,000 people, 7,300 in these headquarters; the Department agreed with 3,000 of the 7,300 that we recommended.

What I am saying is the way they were structured, the ones they recommended, no general officers fell out of the structure, and because they would not reorganize the command structure. Maybe I did not make myself clear.

Mr. **Kasich**. All right. I am glad you said that.

The second thing is that when you recommended the elimination of these positions, are you recommending that they be eliminated from the services or they be transferred to other areas?

Mr. **Vander Schaaf**. I am making no commitment either way. If you can find the appropriate place, and that is a national policy issue that I did not deal with. I do not personally have any problem with transferring general officers into combat units if you people who set the national priority decide that is the way to go.

Mr. **Kasich**. Wait a minute. Transfer them anywhere. Why not eliminate the position?

Mr. **Vander Schaaf**. Because one can make an argument that there is a threat out there that is strong enough that we need additional military forces. You can argue that both ways. I am not going to get into the middle of that argument because I did not study that issue.

Mr. Hutto. If you will yield just a moment. One area is medical, and I think some of them were transferred into that, and we really need people there.

Mr. Vander Schaaf. I would have to defer to JCS on that aspect of it, Mr. Hutto.

Mr. Kasich. Well, Derek, let me start. I went down to the readiness command with my friend, Arch Barrett, here, and I told the commander, what was his name, Lindsay, who is now the head of the SOF, I said to him, "I don't understand why we have a readiness command to begin with. Why don't we abolish this thing?"

So, he took us into the theater and showed us a 2-hour film about how critical, absolutely critical, the readiness command is.

Mr. Vander Schaaf. They abolished it.

Mr. Kasich. A month later, it did not exist any more.

Mr. Vander Schaaf. I am well aware of that.

Mr. Kasich. Let me tell you, I also sat in on a meeting with the head of the services, military heads of the services, who told Bill Nichols that the passage of the Goldwater-Nichols Bill was anti-American, literally said it was anti-American.

Now, of course, the head of the Joint Chiefs says this is one of the greatest bills that ever passed, and now everybody says it is wonderful.

So, I am not that interested in what the structure over in that building has to say about your recommendations. What I am interested in is what is practically doable, and in order to determine that, I have to go outside of that normal procedure and talk to people who are willing to talk candidly and not defend the present structure.

I myself do not see a reason why we do not have a unified transportation command. After all, transportation links to everything. Special forces. There is nothing more than the transportation command.

So, the transportation command ought to be unified. The space command. I do not see any reason why the space command should not be fully unified.

It is like balancing the budget. Everybody is for it until it is theirs. I can take a little issue with the Special Ops, but let me ask you this question so I understand what you are recommending.

I do not believe that Lindsay ought to be responsible for training the Army units under his command for special forces. He does not have the capability to do it. I think that the Army ought to train their units. We are talking now about combat roles, and I am not sure that we ought to be tinkering in the combat area with your recommendations until we accomplish the non-combat areas.

But are you recommending that Lindsay then have total control for the training, for example, of Army units under his command?

Mr. Vander Schaaf. For the operational type training, not for the individual type training. That is clearly a service function. Getting those people prepared to learn how to jump out of airplanes. Once they start operating and working together with each other in units, that training has got to be, to a large degree, orchestrated by the Commander in Chief because he is the unified commander in chief.

Now, I think he can do that. There can be Army officers on his staff, training experts on his staff. They do not need another Army command in between all the time.

Mr. **Kasich**. You are saying currently that Lindsay is not in a position to have unified command over his forces in an operation?

Mr. **Vander Schaaf**. That is what I am worried about. I think he ought to be able to operationally train them in peacetime as he operates in wartime.

Mr. **Kasich**. Well, we need to explore this particular area a little bit more. But, the bottom line is that if we were to do in the noncombat areas of your recommendations, Transportation, this Western Command, I do not even understand that thing, I would like to be trained in Hawaii, but if you take all these areas that are noncombat-related, Derek, if you take those positions and you eliminate them, how much money do we save?

Mr. **Vander Schaaf**. I would have to go price it. It is about 2,100 and some positions. The total savings that we came up for all 7,000 positions, when fully implemented, if we would start implementing right away, was $1.7 billion over the 5-year period, $336 million annually the first year that you implement.

Mr. **Kasich**. This is the grand total, all commands?

Mr. **Vander Schaaf**. 7,309 billet positions, civilian, military, enlisted, and officers, that we identified. As I told you, I did not do a percentage job. I went through here and specifically laid them out. We found recommendations in one command as small as one colonel position, said that position does not belong there, and recommended that it come out.

So, that is just what the total came up to when we finished. I am not saying every one of those are absolutely right. In some places we had to round them and make judgments, but basically that is where it came out, at 7,309 positions when implemented. We thought it would be implemented in 1989, starting right away, and then it would be fully in place by 1990. We would save about $336 million in 1990, and $1.7 billion over the 5-year 1990 to 1995 period.

Mr. **Kasich**. You have not decided—those positions are eliminated, right?

Mr. **Vander Schaaf**. Yes.

Mr. **Kasich**. If they were eliminated, not transferred you would save $1.7 billion over 4 years?

Mr. **Vander Schaaf**. That is right.

Mr. **Kasich**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Kasich.

Mr. **Machtley**. In looking at your uniform transportation command, did you look at how long it might take us under the existing structure to transport enough Army troops into the European theater?

Mr. **Vander Schaaf**. No, I did not look. That is beyond the scope of what we could look at.

However, I am very familiar with the long history of problems of sorting that situation out. We created something called the Joint Deployment Agency back in the mid 1970s, I guess about 1976, and put it down at Tampa at MacDill Air Force Base after years of frustration, of being unable to really put together a fully coordinated plan. I am concerned that all we have done with creating this transportation command, something that I think is essential to put a four star on top of it, to head it up, and sent it above three existing transportation commands. We simply took the Joint Deployment Agency from Tampa, and have not in any way integrated DOD's transportation system and management processes. None of the ADP systems are going to be integrated, and I do not think while we are making progress on planning the movement of forces to Europe and so forth, that we are going to be as effective as we could be if we put the top command structure (MAC, MTMC, and MSC) together in one organization.

Mr. **Machtley**. The reason I ask is that as we look to perhaps giving the reserves more to do or creating less divisions, we ought to say can we get these people not only called up but where they are supposed to go. I had questioned whether, under the existing support structure, we had the kind of emergency transportation for these Army divisions, primarily, because ships can get underway. I do not think the Army divisions could get to Europe, quite frankly.

By the time they were called up, I think we could get reserves there.

Mr. **Vander Schaaf**. That becomes a question of lift, sir, and how much lift capacity we have and not one necessarily of how we are organized to manage it. You are right, there are some lift shortages. I am not the best person to talk about that. My auditors have looked at that from time to time and the General Accounting Office has as well, but I think we have got to reorganize so we can better manage the problem. We can organize so we can save some positions so we can buy some of that lift. That is what I am talking about.

Mr. **Kasich**. Will the gentleman yield?

Well, Derek, just answer this briefly. If you have four different layers of bureaucracy trying to get a group of people to Europe, is it simpler to get them there with four layers of bureaucracy or one?

Mr. **Vander Schaaf**. Exactly my point. You want to organize. Your issue is you want to organize in peacetime, how you intend to operate in wartime. Make this commander in charge. Let him start operating that way in peacetime.

If you put these different layers in, you cannot pinpoint responsibility. You lose efficiency. You take longer to communicate. You have got to pass the message up and down the line through more layers of people and so forth.

Now, at some point, you have got to have enough layers of command that you do not lose control of the operations, and where is the dividing line? Where is the magic line, and I think that we have not taken into consideration modern communication techniques that are out there today. We just have not taken full advantage of that.

You can transmit a piece of hard copy now around the world in a matter of minutes on fax machines and so forth. We do not need all these layers of headquarters to control the forces in my opinion. We can do away with some of these organizational layers that have been around since we finished World War II, and that is the point I am trying to make in this report.

Mr. **Machtley**. Thank you.

Mr. **Hutto**. Mr. Bilbray.

Mr. **Bilbray**. Mr. Chairman, if the witness is going to remain, I would like to hear the testimony. I presume there is going to be some counter testimony, and then maybe wait for an appropriate time to ask questions.

Mr. **Hutto**. OK. Mr. Bilbray passes.

Mr. Ray?

Mr. **Vander Schaaf**. Do you want me to stay?

Mr. **Bilbray**. Well, we could address questions by letter.

Mr. **Vander Schaaf**. Well, I will do it however you want to do it, sir.

Mr. **Bilbray**. It is up to the Chairman, not me.

Mr. **Hutto**. Mr. Bilbray, would you like Mr. Vander Schaaf to stick around for questions?

Mr. **Bilbray**. Well, I would think that would be a good idea because I think that we are going to hear—I have seen some heads shaking in opposition out there in the audience as it goes along, and I presume some of those people are going to testify.

Mr. **Hutto**. We have referred to their testimony already in some of our questions, but if you could stick around afterwards, that would be beneficial.

Mr. Ray.

Mr. **Ray**. I thank the Chair.

I think you have done a good job here. Of course, I have just had a chance to look at your statement briefly and hear your testimony, but as I look at the budget for 1990, $1.6 trillion, and try to figure where we are going to cut. The only place in the world that we can reduce that budget is—much of the budget is already funded. Defense is frozen, which means, according to Caspar Weinberger, the cancellation of weapons systems in the pipeline, $172 billion there, a reduction in force structure, and also a change in military strategy.

So, we face that, and it would appear to me that the place we have to look to is the refining and strengthening of our organization by doing just that.

I cannot testify that everything you have here is something that we can buy off on.

Mr. **Vander Schaaf**. I do not testify everything I have here is something you ought to buy off on, exactly and precisely, but I am saying that this is an outline, a framework. It is a good place to look, Mr. Ray, in my opinion.

Mr. **Ray**. Let me just shoot a few questions at you here, sir.

On Page 4, you say, "For example, we have situations where in January 1987 the Department reported to the Congress that it had 33,132 positions." Then, a little further down in the paragraph, you say, "We identified 59,510 positions in the same headquarters."

Now, what do you mean by that? Is that a matter of misinterpretation of command about what positions?

Mr. **Vander Schaaf**. Well, as a matter of difference, there is an interpretation of what constitutes a headquarters, but I think I used a very reasonable definition of what constituted a headquarters. I said what does that commander need to manage and control his forces? Then I looked around and said, where are these people reporting if they are supposedly not in the headquarters, and who is writing their efficiency report, and where are they sitting? We found many commands, organizations, that they do not count, such as combat operations support commands, they call them, but they sit. A colonel is at Desk A and a colonel who is not counted in headquarters is at Desk B in the same room, basically doing the same function.

I do not think my definitions were at all outlandish. I tried to be as reasonable as I could, but what has happened over the years, Mr. Ray, is that the Congress and others in frustration over headquarters had demanded a sort of percentage reductions, and the department has sort of saluted and said, yes, sir, we will take a percentage reduction. Then they came back and said we have a percentage reduction, but defined the problem away, creating a combat operations staff, creating a direct reporting unit that is no longer counted as part of the headquarters. We went and rounded all those up, if you will, and said, hey, commander, this is what you are really using to manage and control your force structure underneath you. This is what you ought to count, and we came up with 59,000 instead of 33,000.

Mr. RAY. You said that you would be a little frustrated if you had to explain the command to the continental United States.

Now, does that mean that you did not take—let us take the Air Force, for instance. You might have looked at the overall Air Force, but did you look at the twelve major commands in the Air Force? Did you get that far?

Mr. VANDER SCHAAF. No, not in any great depth in terms of each one of the responsibilities.

What I was referring to there was, who was responsible for the land, air and sea defense of the continental United States and Alaska? How does that chain of command go from the President of the United States to the field commanders who have to execute the plans and assign the forces, and, sir, it is confusing, to say the least.

I think it is unworkable. You get different commands defending the Aleutians under one approach. You have a reserve National Guard general from, I believe, the Indiana National Guard. You get different arrangements, different situations, in the Aleutians and Alaska, for example, which is a tremendously complex kind of thing, and I do not know how it will work.

The same way with defense of ports and harbors and rivers and installations, Forces Command claims these are their responsibility. We have what we call the Maritime Defense Units for the Pacific and one in the Atlantic that report not to forces command, but they report to CINCLANT or to CINCPAC. They also claim responsibility.

There is a lot of confusion, sir. That is about the best I can describe it.

Mr. RAY. Do you think that if we did a study of the continental United States commands, Army, Navy, and Air Force, that you would find a similar situation down in those chains of command?

Mr. VANDER SCHAAF. Yes. In fact, one of the recommendations I made as a result of this for a follow-on study is that somebody take a good hard look at the whole reserve force command structure between the National Guard, the continental United States Armies, the reserve components structure, and the headquarters structures within the Secretary of the military departments.

There is a huge command structure overlooking our whole reserve force structure, and I think that ought to be looked at in a critical way to see if all of that really represents a good use of resources.

I, frankly, think it can use a little trimming here and there on the edges.

Mr. **Ray**. I do not want to pick on any particular command, but one command that I know about has five bases under its command with somewhere around 88,000 civilians and five bases in headquarters command.

Would you think that the commanding base ought to be top heavy on oversight, or should a lot of that oversight be moved down to those five bases?

Mr. **Vander Schaaf**. It has got to be down at those five bases, if you are talking about base operations kind of oversight——

Mr. **Ray**. Do you think then if the case is where you have 88,000 civilians and 30,000 of them in the central command would be a few too many?

Mr. **Vander Schaaf**. No comment. I do not know what I am walking into. I am going to walk into a land mine there, I am sure.

Mr. **Ray**. Maybe that the particular command had a procurement overview section which had a thousand people in it overviewing the five bases procurement at a cost of about $30 to $40 million?

Mr. **Vander Schaaf**. I know the kind of thing—I saw it. I was dismayed at the Army in Europe, for example. I was under the impression that the two corps in Europe, the 7th Corps and the 5th Corps, were war-fighting commands. In fact, they only have, I believe, do not hold me to the exact number, but roughly 200, maybe less than 200, military officers in those commands.

I looked at it and they had 500 to 700 civilians in 5th Corps and 7th Corps taking care of housekeeping-kinds of functions, and they have the same housekeeping functions being cared for at EUCOM, and we had the same housekeeping functions at the communities in Europe.

So, it sounds like you are describing the same structure. I do not know which one you are describing, sir, so I will stay away from trying to——

Mr. **Ray**. Has the proliferation and expansion of all these commands come about in the last ten to 12 years?

Mr. **Vander Schaaf**. I would say it has taken longer than that.

Mr. **Ray**. Fifteen to 20 years?

Mr. **Vander Schaaf**. Fifteen to 20 years is probably better—and they tend to grow.

Mr. **Ray**. I understand.

Mr. **Vander Schaaf**. I used to read C. Northcoat Parkinson in college. I do not know if you have ever read any of his works, but he used to be, I guess in his day, a management guru, and he has some rules and laws with respect to how this process works for headquarters, and I think that applies in this situation.

Mr. **Ray**. What do you mean when you say "disestablish U.S. forces in the Caribbean"?

Mr. **VANDER SCHAAF**. Well, there is a command down there. It is located in Key West, FL. The command was set up, I think, largely as a reaction to public and political reaction to the situation that existed when the Soviets put a brigade into Cuba.

We looked at every incident we could come across in discussing the situation with CINCLANT, the commander in chief at Atlantic Command. We looked at the potential assignment of forces to that command and looked at the potential role that command could play in any contingency we could come up with. In every contingency we could not find a role for the command.

Mr. **HUTTO**. If the gentleman will yield, I believe that has been eliminated.

Mr. **VANDER SCHAAF**. The Department has agreed that command will be eliminated. That is my understanding.

Mr. **HUTTO**. That is the command that I guess we had to learn over the media that there had been an invasion of Grenada.

Mr. **VANDER SCHAAF**. Well, that is right. Also, it was a command, I think, we tried to call on New Year's Eve. I was trying to get down there the whole day on the 31st. We called and we called their number, their command room number. I could not get an answer. Nobody answered the telephone down there.

So, we went down and took a look. There were certain coordinating functions in the Caribbean with the governments and the countries down there that this individual could play, nice to have but certainly not essential, and the Department agreed, I understand they have agreed anyway, and the command will, in fact, be eliminated from the structure.

Mr. **RAY**. On the tactical air command function, can you explain what you are talking about there? Consolidating combat operations, disestablish air defense combat operations staff. Would you explain that a little bit?

Mr. **VANDER SCHAAF**. Yes, sir. I will try to.

The tactical air command has picked up some additional functions, if you will, as a result of reorganization of the North American Air Defense Command. The First Air Force, I think, is now responsible for air defense of the continental United States and so forth.

As a result of that, when they got that assignment, TAC said we are a combat kind of management command and said, in effect, combat operations staff would run the watch center, be on the NORAD information net, I will describe it as that, and so forth.

Frankly, I think a lot of those billets were put in this category to sort of hide headquarters growth. I do not think there is any basis to have a separate combat operating support function there in TAC, and it ought to be put together and looked at and thinned out to some degree. It is explained in a report here in considerably more detail, but that is a quick review of it.

Mr. **RAY**. Well, finally, Mr. Chairman, this is my last question. Do you think that the short dollars we are going to be facing is going to starve out some of the layers that you are concerned about, or do you think we are going to have to go ahead and——

Mr. **VANDER SCHAAF**. I mentioned to you C. Northcoat Parkinson, and I have the complete feeling that the pressures to do this have to come from, to a large degree, the outside.

Now, there can be some pressures to generate some within the Department. I think Parkinson had some rules about the British Navy as it declined in tonnage between World War I and some time in the 1950s. The numbers of admirals increased in direct proportion to the amount of tonnage that the British Navy shrunk. I just think that the system has a hard time policing itself when you get into this kind of a situation.

You are talking about command positions, general officers and staff very near and dear to everyone's heart. Important issues, very important issues. I am not trying to demean the issue at all, but I think you have to generate some pressure outside of the Department to make some of these things happen. But you need it in the Department as well, however, in the end, only the Secretary of Defense and the Chairman of the Joint Chiefs of Staff are really going to be in a position to make the right reductions and I think it depends on our next Secretary of Defense and how he sees the situation and what he decides to do.

Mr. **Ray**. Thank you, Mr. Chairman.

Mr. **Hutto**. Mr. Tanner.

Mr. **Tanner**. Thank you, Mr. Chairman.

I am very interested in what you have to say. I am sorry I was delayed and did not hear all your testimony. I have tried to peruse your statement as quickly as possible. Let me ask you, if I may, how many recommendations did you make?

Mr. **Vander Schaaf**. I do not know exactly how many. I understand something like a 150 specific recommendations.

Mr. **Tanner**. They are not included in here?

Mr. **Vander Schaaf**. They are not all, no. You have to get this report here. It is a public document. It is available and that has them all laid out in there.

Mr. **Tanner**. Here it is. Good.

Do you know if any were accepted or were signed off on?

Mr. **Vander Schaaf**. I understand, and again you have to ask the Defense Department, and the witnesses that will follow me. My understanding is that about a third of them were accepted.

The ones that were not accepted largely deal with reorganization of the command structure, which I think is critical to making a lot of the savings. Other than that, in the area of base maintenance and base operations, I think some significant savings can be achieved, and the Secretary has agreed to do that.

Mr. **Tanner**. Where, in your opinion, are the worst examples of duplication in terms of command structure?

Mr. **Vander Schaaf**. In my opinion, I cannot prove this empirically, the biggest potential duplication we have is in the NATO and the European Command structure. Our European Command structure and the NATO Command structure.

There is some—I have some notes. There is something like 15,646 command headquarters positions in Europe of which 6,360 are in NATO Headquarters.

Now, the commander of SHAPE, Supreme Allied Command Europe, General Galvin, did not want to see me, did not want to talk to me, would not let me in his headquarters, did everything he could to keep us from getting involved in this process or helping us in this process in any way.

So, I think if you talk about duplication, the potential for duplication in that NATO Command structure and the U.S. Command structure is there. I know some of the staff members in this room have tried to sort that out. That is a very difficult problem to sort out.

I tried to get into it to some degree. I was rejected. I went to the Ambassador to NATO. I went to everybody. I called back. I tried to do everything I could. As a matter of fact, I knew the previous commander, Gen. Bernard Rogers, fairly well, and I said I will do this. So, if General Galvin does not want to talk to me, I will try General Rogers and maybe he will talk to me.

So, I called back from Europe. I told Pat, my secretary, to get General Rogers for me and set up a meeting with General Rogers to discuss this. He has been there for 4 or 5 years. He ought to be able to talk about this.

Well, I made one mistake. I let some of the people in Europe know that I had set up a meeting with General Rogers and the next thing I knew, the meeting with General Rogers was canceled. So, I had some trouble in the process of getting this accomplished in terms of looking at that NATO piece, but I think if you talk about potential duplication, it is there.

Now, within that area, I found one group within the NATO structure. There is something called a delegation to the NATO military committee, and there is something called the U.S. Mission to NATO. They sit in the same building. They are on different floors in the same building. One reports to the Chairman of the JCS and the other reports to the Secretary of Defense and the Secretary of State.

There are about 160 people in those two organizations, and it looked to me like it was duplication. I know the people in those organizations looked at me and they said, Vander Schaaf, he is crazy, he does not understand, he does not know what is going on, etc. But, believe me, I looked and I looked and I could not come up with any conclusion other than there was significant duplication.

I found out that Great Britain and Canada do not provide separate military delegations in civilian missions, if you will, to the NATO infrastructure, and I thought the whole thing was quite duplicative, Mr. Tanner.

So, there is a specific instance when I did get into a NATO facility and get an opportunity to look where I could clearly see it. So, that is one. Some duplication in the space operations business. I talked to Congressman Ray about that and the Chairman earlier.

Then, also, there is a lot of duplication in who is responsible for defending the continental United States in that command structure. Those are, I guess, the four main areas of duplication.

Mr. TANNER. You mentioned a seemingly large number of civilians. How many civilians in Europe did you——

Mr. VANDER SCHAAF. How many civilians in Europe?

Mr. TANNER. You were talking awhile ago about the number of civilians, I think in your words——

Mr. VANDER SCHAAF. Doing housekeeping in Europe? I do not know. I cannot identify the number right off the top. I think I can put it together. May I try to answer that for the record for you?

Mr. TANNER. All right.

Mr. Vander Schaaf. I have to do a little arithmetic, but we have it. It is a matter of trying to put it together. I just cannot go through that off the top of my head and do it.

[The following information was received for the record:]

Number of Civilians Doing Housekeeping in Europe

At the time the Unified and Specified Command Headquarters review was done, the U.S. Army Europe had a work force of about 37,000 providing base operations support, services and quality of life to a population of 415,000 in West Germany and Berlin. Base support functions typically cover such areas as quality of life, community affairs, equal opportunity and employment, family housing, military and civilian personnel management, physical security, facilities construction and support and medical services. The Study Team did not determine the military/civilian mix throughout Europe. In the U.S. Army Europe and the Seventh Army, however, civilians accounted for over 50 percent of headquarters staff.

Mr. Tanner. I may have more questions later.

Mr. Hutto. Thank you, Mr. Tanner.

Mr. Vander Schaaf, we more than likely will have questions that we would like you to answer for the record, and we appreciate very much your being here and your testimony, and if you can stay around until after we have completed our hearing, some of the members may have questions to ask.

Mr. Bilbray, I did not mean to mislead you. We do not call witnesses back and forth in a debate-like situation, but if Mr. Vander Schaaf can stay around to answer your questions or any other members——

Mr. Bilbray. I have a 3:45 appointment and they may not be done by the time he finishes. I do not want to walk out on him after he waits for me either.

Mr. Hutto. OK.

Mr. Vander Schaaf. I will just leave and you can listen to the Joint Staff. Mr. Chairman, this study has been public for 6 or 8 months, something like that. It certainly is open for discussion. I think that we have got some good ideas for cost savings with efficient operations in it. I am not wedded to every single recommendation in there, never have been.

Mr. Hutto. Well, fine. I appreciate that.

Mr. Vander Schaaf. The concepts are good and right that are addressed in there.

Mr. Hutto. I appreciate that very much, and I am sure that we will have some questions.

Mr. Kasich. I would like to ask one more question and make a request.

The request is I would like for you in chart terms, simple terms, to break down what you are recommending, how many people, how many dollars, this is what they do.

I think we can make this smaller than this. Maybe the military put this book together.

Mr. Vander Schaaf. That is small, believe me. That would be considered—no. We can do——

Mr. Kasich. If we could have it, in like one or two pages.

Mr. Vander Schaaf. If I understand what you are asking for, Mr. Kasich, I am not certain I can do that. I do not think I can do it. I know I recommended it, but I do not know what got implemented exactly in the 3,000. I do not know how they spread those around. That is the Joint Staff's duties, not my duties.

Mr. HUTTO. If you could just let us know.

Mr. KASICH. These charts do not do anything.

Mr. VANDER SCHAAF. I can give you what I recommended in two pages, if you will.

Mr. KASICH. Why do you not do that, and we can ask the services what they implemented. Then you can decide whether they are really implemented or not?

Mr. VANDER SCHAAF. OK.

[The following information was received for the record:]

UNIFIED AND SPECIFIED COMMAND REPORT RECOMMENDATIONS

The February 1988 Report, Review of Unified and Specified Command Headquarters, contains 181 separate recommendations, of which 68 relate to specific personnel reductions in the headquarters staffs of the Unified and Specified Commands, the Services Component Commands, the Sub-Unified Commands and other subordinate commands. The report recommended a total reduction of 7,309 in headquarters staffing.

Those recommendations not directly impacting personnel reductions related to geographic areas of responsibility for some of the Unified Commands or generally focused on such areas as organizational transfers necessary to implement the headquarters personnel reductions, consolidations to implement organizational streamlining, management issues, etc.

In July 1988, the Joint Chiefs of Staff and the Unified and Specified Commanders provided the Secretary of Defense with their views on the proposed recommendations were, as follows:

1. Recommendations Related to Eliminating the Unnecessary Headquarters Staffs of the Unified and Specified Commands, the Military Service Component Commands, the Sub-Unified Commands, and Other Subordinate Commands.

Of the 20 recommendations in this area specifically relating to personnel reductions, there was occurrence with one recommendation and partial concurrence with two others. The Joint Chiefs of Staff and the Unified and Specified Commanders nonconcurred with the other 17 recommendations in this category.

2. Recommendations Related to Layering of Base Operations Support.

There were two major recommendations in this area—one related to personnel reductions in Europe and one related to personnel reductions in Korea. The Joint Chiefs of Staff and Unified and Specified Commanders concurred with the recommendation related to Korea (but without a specific commitment as to the number of personnel reductions) and nonconcurred with the one on Europe.

3. Recommendations Related to Excessive Manpower Expended on Operational Planning.

There were three major recommendations related to personnel reductions in this area and the Joint Chiefs of Staff and the Unified and Specified Commanders nonconcurred with all three. (Some of the miscellaneous recommendations included in category 5 below also partially or indirectly related to various planning activities.)

4. Recommendations Related to Unified Commands Geographic Areas of Responsibility.

There were four major recommendations concerning Unified Command areas of responsibility and the Joint Chiefs of Staff and the Unified and Specified Commanders nonconcurred with all of them.

5. Recommendations Resulting in Miscellaneous Personnel Reductions.

There were 45 recommendations calling for miscellaneous personnel reductions in the various command headquarters staffs (some very small). The Joint Chiefs of Staff and the Unified and Specified Commands concurred with four, partially concurred with 11 and nonconcurred with 30.

6. Miscellaneous Recommendations Related to Various Organizational and Management Issues—but not Directly Resulting in Immediate Personnel Reductions.

Of the 107 recommendations in this category, the Joint Chiefs of Staff and the Unified and Specified Commands concurred with 18, partially concurred with 11 and nonconcurred with 78.

In summary, the Joint Chiefs of Staff and the Unified and Specified Commanders agreed to personnel reductions of 500—out of a potential of 7,309.

Subsequently, in September 1988, the then Secretary of Defense Mr. Carlucci directed the Chairman of the Joint Chiefs of Staff to implement additional reductions—1,000 in the Base Operations Support area (see category 2 above) and another 1,500 in selected management areas. It is assumed that this latter reduction relates to the operational planning area (category 3 above) and the various miscellaneous reductions (category 5 above).

The only reductions related to unnecessary headquarters commands (category 1 above) that were agreed to involved the disestablishment of U.S. Forces Caribbean. They also agreed to take a look at the Naval Activities Caribbean for further possible reductions. It is this category that accounts for most of the remaining 4,000 potential reductions (over and above the 3,000 directed by Mr. Carlucci).

Mr. **Kasich**. The other question that I have, is I am a little concerned that you may have cut—see, we are trying to become more joint, as and I am a little concerned that maybe you are cutting more from the Joint side than you are the service side since we are talking about personnel reductions, since we are trying to do more joint things.

Rather than cutting too much from the Joint side, should we not be cutting from the individual services? Did you cut a proportionate amount from the Joint side?

Mr. **Vander Schaaf**. The vast majority comes from component commands. In fact, if you do away with the service component commanders entirely, attach some of their functions that we think are critical to the unified command a lot of positions can be eliminated. Directions and orders would flow directly to operating levels, although not necessarily operating levels yet, to numbered Air Forces, the Army corps, the fighting corps, and the joint task forces of the Navy and so forth.

There are a few reductions, I think, in CINCPAC Headquarters, particularly, but very few. In EUCOM, a few. In the unified commanders headquarters, but overall they are very, very small.

Mr. **Hutto**. All right. Thanks again, Mr. Vander Schaaf.

Mr. **Vander Schaaf**. Thank you, Mr. Chairman.

Mr. **Hutto**. We would call up at this time Mr. David J. Berteau, Deputy Assistant Secretary of Defense for Reserve Management and Support, from the Department of Defense, and Maj. Gen. George L. Butler, United States Air Force, Vice Director of Strategic Plans and Policy, from the Joint Chiefs of Staff.

[Pause.]

Mr. **Berteau**. Mr. Chairman, if you will bear with me, I need to get myself organized and squared away.

Mr. **Hutto**. Yes, sir. We will let you get organized.

Mr. **Berteau**. It is a unique opportunity to get warmed up like that before our hearing.

Mr. **Hutto**. Well, we usually ask our witnesses to run around the halls for a couple of laps.

Mr. **Berteau**. We do enough of that already. So, we do not need to do that.

Mr. **Hutto**. Well, anyway, we welcome you here and when you are ready, you may proceed.

[Pause.]

Mr. **Berteau**. Before I begin, I want to point out one small technical correction. My actual responsibilities are Resource Management and Support rather than Reserve Management and Support.

Mr. **Hutto**. OK. Somebody made a little typographical error.

Mr. **Berteau**. That is the basis upon which I have had the joy of dealing with Derek's report over the last just about 1 year.

Mr. **Hutto**. Resource Management and Support?

Mr. **Berteau**. Yes, sir. That is within the Force Management and Personnel organization within OSD.

I have a statement which I would be happy to submit for the record.

Mr. **Hutto**. If you will, and then summarize. We will include your complete statement in the record.

Mr. **Berteau**. All right.

STATEMENT OF DAVID J. BERTEAU, DEPUTY ASSISTANT SECRETARY OF DEFENSE (RESOURCE MANAGEMENT AND SUPPORT), DEPARTMENT OF DEFENSE

Mr. **Berteau**. I had intended to summarize. If you will permit me, I will also try to address a few of the pressing questions which have already been voiced here this afternoon, so we will not have to waste too much time repeating questions.

I know I will not address everyone's concerns that were raised, but I will be happy to go into that as the afternoon goes on. I will try to address the most pressing of those in my remarks here.

As you heard Mr. Vander Schaaf describe earlier, it was in December of 1987 that the Secretary of Defense directed a review of the Organization of the Joint Chiefs, the Unified and Specified Command headquarters, the headquarters support organizations, and the component commands. This review was clearly aimed at reducing manpower levels and overhead costs. It was budget driven and the timing was budget driven. Congress had directed this at the time, and we were implementing the budget summit agreement just a week before Congress approved the 1988 and directed the reduction of the 1989 DOD budgets.

The Secretary implicitly endorsed the view as Derek mentioned that across-the-board percentage reductions were the wrong way to go, and he wanted to look specifically at functions and missions and the manning associated with those.

I cannot argue nor did the Secretary ever state that Mr. Vander Schaaf went beyond his charter in conducting his review or in recommending any specific actions. The Secretary has never stated that.

The final Vander Schaaf report did go beyond the definition of the spaces that DOD identifies as headquarters, the 33,132 that are reported to the Congress as headquarters spaces within the unified and specified command headquarters. The report maintained that there are 59,510 spaces performing unified and specified command headquarters functions.

This was based on a different and expanded definition of headquarters. In no case has there ever been a question of the accuracy of the number of 33,132. Derek does not challenge that it is not, in fact, an accurate count of those spaces against which the DOD directive is applied. I will be glad to go into that in some more afterwards.

Derek recommended the 7,309 spaces reduction. After his report was completed and submitted to the Secretary in February 1988, OSD and the Joint Staff reviewed the report's recommendations. The Joint Staff provided a detailed line-by-line analysis on each of the recommendations to the Secretary in July of 1988. That analysis recommended that headquarters could be reduced by 505 military and civilian spaces without any serious degradation to the national command structure or to war-fighting capability.

The Secretary accepted those 505 reductions and, in September, he directed that the Chairman of the Joint Chiefs of Staff should reduce an additional 2,500 spaces based on two of the broad policy recommendations in the Vander Schaaf report.

These included an additional 1,000 spaces associated with base operations management oversight and 1,500 spaces through streamlining selected unified and specified command management areas.

The Secretary determined that he would not take the additional spaces recommended by the Vander Schaaf report based, in part, upon the views of the Chairman, the Joint Chiefs of Staff, and the Unified and Specified Commanders that these reductions, particularly those related to the component command organizational changes, would potentially harm the capability and the effectiveness of the unified and specified commands.

He did this not because of any belief that the law requires component commands, as part of the organizational structure, but because, in fact, the component command structure, as it is implemented today, is a good way to execute the services' Title 10 responsibilities, to organize, train and equip forces.

In addition, and I have a lot of personal experience with this, the component command structure has been an increasingly effective way for the CINCs to gain representation in the service programming process while still preserving their flexibility to appeal those service programs through the Chairman and the Joint Chiefs and to the DRB, the Defense Resources Board.

Concurrent with the Secretary's decision to implement the reduction of 3,000 spaces, he and the Chairman agreed to permit the services to propose a reinvestment of part of the saved spaces to reduce shortfalls in existing combat units and medical support operations, and we had some very specific criteria laid out for those proposed add-backs.

They had to be shortfall billets in existing combat units that were already operational. We were not creating any new units in order to move these people over. The existing combat units that were under-manned, and in the medical cases, it was the existing medical support activities where there were clear shortfalls in manning.

I will be glad to address that further as well.

The Chairman provided a list of the potential reinvestment candidates. We scrubbed those very carefully, approved those that met the criteria, and, in fact, in the Defense Department's final budget for fiscal years 1990 and 1991—I should not say final budget since we are already redoing it—but in the Defense Department's budget for fiscal years 1990 and 1991, we reduced 2,990 military and civilian spaces in the commands and approved the reallocation of 2,244 of those spaces to fill shortfalls in combat forces and medical support.

The remaining 746 spaces were deleted from the budget request, and the dollars savings for those were taken.

In conclusion, the review accomplished the objectives established by the Secretary. The implementation did reduce manpower levels and did reduce overhead costs. It was successful in part because of the personal support and interest of the Secretary of Defense and the strong assistance of the Chairman of the Joint Chiefs.

I feel it is important also to note, though, that the Defense Department has expanded its management and organizational oversight capabilities and has them on line and in place to identify and validate manpower requirements for all of DOD.

We have taken a number of steps over the last 3 years to strengthen both our manpower requirements oversight and the matching of resources to those requirements. In addition, our efficiency review process has been implemented to identify the most efficient organizations and to pattern other organizations on these high performers.

In fact, in Mr. Vander Schaaf's statement, he cites what he feels to be the correct process to follow in determining what the manning ought to be. That process is virtually word for word what our efficiency review process is, and that is a new process within the Department. It is only 3 years old. We are still making inroads into it. It takes a while to cover, over three million people as a result of that.

The implementation and maintenance of these resource requirements determination and oversight processes should reduce or eliminate the need for future one-shot reviews. Let me address what Mr. Brown and Mr. Schlesinger said in their report. It is my feeling that rather than use our resources on one-time/one-shot studies, we need to do this as a part of a permanent, on-going internal review and monitoring of requirements and resources and execution. We are putting that capability in place, and I think that is where the pay-off is.

I think that the Defense Department, certainly all the people that I work with there, remain very dedicated to achieving the most efficient, most capable defense posture at the lowest possible cost to the Nation, and we request your continued assistance with this effort.

That concludes my statement. I tried to address some of the questions that have been raised with Derek, and, of course, I am available for any additional questions that you might have.

PREPARED STATEMENT OF DAVID J. BERTEAU

Mr. Chairman and members of the committee, it is a pleasure to appear before you today to discuss the Defense Department's implementation of the "Review of Unified and Specified Command Headquarters," now commonly known as "The Vander Schaaf Report."

On December 14, 1987, the Secretary of Defense directed the Deputy Inspector General of the Department of Defense to conduct a review of the Organization of the Joint Chiefs of Staff, the Unified and Specified Commands Headquarters, and their Headquarters support organizations, to include Component commands. The Secretary of Defense stated that the primary objective of the review was to reduce manpower levels and overhead costs. The Secretary directed that the review should pay particular attention to overlapping responsibilities, duplication of functions, and excessive layering of organizational echelons.

I want to stress that the Vander Schaaf Review was an internal Department of Defense management review effort, which was initiated at the direction of the Secretary of Defense in an attempt to further improve the operations and management of the military command structure. The Vander Schaaf Team Review, from inception to completion, took only 7 weeks to produce an exceptionally comprehensive report. The Vander Schaaf Report itself does caution that the study should not be viewed as an audit or inspection product of the DOD Inspector General's office, because the Study Team did not have the time or the resources to apply formal audit standards. To do so would have required much more time than was available to the Team.

The final Vander Schaaf Report took issue with the Department's identification of 33,132 military and civilian spaces in the Unified and Specified Command Headquarters organizations. The Report maintained that there were actually 59,510 spaces performing Unified and Specified Command Headquarters functions, and that 7,309 spaces could be eliminated by following three major themes and several minor themes.

Upon receipt of the completed Vander Schaaf Report, the Office of the Secretary of Defense (OSD) and the Joint Staff embarked on a joint review of the Report recommendations. We had agreed that OSD would be responsible for reviewing and implementing the broad policy recommendations in the report, and that the Joint Staff would be responsible for review and implementation of the line-by-line details of the same recommendations.

The Joint Staff prepared a detailed line-by-line review of each of the Vander Schaaf Report recommendations, and this review was provided to the Secretary of Defense in July 1988. As a result of this detailed review, the Joint Staff recommended that the Unified and Specified Command Headquarters Organizations could be reduced by 505 military and civilian spaces without any serious degradation to the National Command structure. The Secretary of Defense accepted the 505 space reduction recommendation. In addition, the Secretary directed the Joint Staff to identify an additional 2,500 Unified and Specified Command spaces for reduction using the broad policy recommendations in the Vander Schaaf Report. These included an additional 1,000 space reduction through streamlining the policy and oversight functions for base operation management at Unified and Service Component Command level and at Corps, Numbered Air Force, Air Division, and Fleet Command Headquarters. The Secretary also directed an additional 1,500 space reduction through streamlining selected Unified and Specified Command management areas. The Chairman of the Joint Chiefs of Staff was given the flexibility to spread these final policy-driven reductions.

OSD and the Joint Staff determined that we could not take the additional 4,309 space savings recommended by the Vander Schaaf Report without potentially harming the capabilities and effectiveness of the Unified and Specified Command structure. These are extremely important organizations, which focus and direct our Nation's war-fighting capabilities. We do not want to impair these capabilities.

Concurrent with the Secretary's decision to implement selected Vander Schaaf Report recommendations, the Chairman of the Joint Chiefs of Staff and the Secretary agreed to reinvest all or part of the saved spaces in combat and medical operations. The Chairman provided the Secretary with a list of potential reinvestment candidates. This reinvestment of manpower savings was recommended in the Vander Schaaf Report.

All of these adjustments were finalized during the joint OSD/OMB review of the Department's fiscal year 1990/fiscal year 1991 budget request. When the dust finally settled on the puts and takes of this manpower reduction exercise, the Defense Department had reduced the Unified and Specified Commands Headquarters and associated organizations by 2,990 military and civilian spaces. Military service combat force structure and medical support activities were increased by 2,244 military and civilian spaces. The remaining 746 military and civilian spaces were deleted from the Defense Department's budget request.

CONCLUSION

The Vander Schaaf Review of Unified and Specified Command Headquarters accomplished the objectives established by the secretary of Defense in his tasking memorandum. The Review reduced manpower levels and overhead costs. The Defense Department did this by implementing report recommendations to eliminate overlapping responsibilities, duplication of functions, and excessive layering of organizational echelons. Many of the saved spaces were reinvested in combat force structure and medical support, in keeping with one of the Report's recommendations.

I feel that the Vander Schaaf Report was successful because of the personal support and interest of the Secretary of Defense and the assistance of the Chairman of the Joint Chiefs of Staff. I feel that the Defense Department does have the management and organizational capabilities on line and in place to identify and validate military and civilian manpower requirements for all DOD organizations. The Department's Efficiency Review Process has been implemented to identify most efficient organizations and to pattern other organizations on these high performers. The correct and enthusiastic implementation of these resource requirements determination processes should eliminate the need for future one shot reviews. The Defense Department remains dedicated to achieving the most efficient, most capable defense posture at the lowest possible cost to the Nation. We request your continued assistance with this effort.

Mr. Chairman, this concludes my statement. I am available for any questions you may have.

Mr. HUTTO. OK. Thank you, Mr. Berteau.

General Butler, do you have a statement?

General BUTLER. Yes, sir. With your approval, I would like to submit my statement for the record.

Mr. HUTTO. Yes, sir.

General BUTLER. Having read Mr. Vander Schaaf's statement over the weekend and listening to his testimony today, I would like to——

Mr. HUTTO. You mean all of it?

General BUTLER. I read all of it at least a dozen times. I would like to paraphrase my statement and simply dwell on a few of what I consider to be the most cogent points.

Mr. HUTTO. All right, and your full statement will be admitted for the record.

General BUTLER. Thank you.

STATEMENT OF MAJ. GEN. GEORGE L. BUTLER (USAF), VICE DIRECTOR FOR STRATEGIC PLANS AND POLICY, JOINT CHIEFS OF STAFF

General BUTLER. I would also like to make clear at the outset that if Mr. Vander Schaaf considers himself to be the Salmon Rushdie of the joint arena, I am not here representing the Ayatollah Khomeini, and I can also assure you that there is no price on Mr. Vander Schaaf's head on the part of the JCS—if only because that would require reprogramming and funds are a little short right now.

But I am honored to testify here today, especially in the company of the distinguished colleague like Mr. Berteau, and I would also like to say, Mr. Chairman, that I feel a great weight of responsibility here this afternoon because while Mr. Vander Schaaf was representing his personal views, I am here to speak for the Joint Chiefs of Staff and the Commanders in Chief of the Unified and Specified Commands, and I would like to clarify at the outset that the reply to the Vander Schaaf review was the reply not of the Joint Staff, but the Joint Chiefs of Staff and the Commanders in Chief of the Unified and Specified Commands. That is a vital point.

My task is to make their case at least hopefully this afternoon in the same compelling fashion which, in their formal reply to the SECDEF, persuaded the Secretary of Defense to reject the vast majority of Mr. Vander Schaaf's recommendations, in particular, those proposals and the supporting logic which comprise the bulk of the testimony which you just heard.

But before I begin, I would first like to make clear what I am not here to do this afternoon. I am not here to impugn the motives or cast aspersions on Mr. Vander Schaaf's sincerity or his experience. He obviously feels strongly about these matters and has an extraordinary background in them.

In fact, having dealt with his review at great length and for many months, I cannot help but marvel at the scope of his background and how much ground he attempted to cover in such a short period as was allowed him by the Secretary of Defense.

As I see my role here today, I think I am best suited to clarify what is really at issue in the review and in the testimony that you have heard today. Clearly, this is not just about a few thousand manning allocations, however important those may be to the losing agencies. Rather, this is about the following:

First, the proper roles of and relationships among the Commanders in Chief of the Unified and Specified Commands, the services, the Chairman and his staff.

Second, it is about authority and influence in the resource allocation process which we call the PPBS.

Third, it is about the most fundamental questions of global military organizations, structure and geographic areas of responsibility.

Fourth, it is about how and why the CINC staffs and the JCS staff are organized, the work they do and how they interrelate.

Fifth, it is about the true meaning of the word "joint", that is, whether it is a more properly inclusive or exclusive term vis-a-vis the services, as they relate both to the CINCs and to the Joint Staff.

Finally, it is about differences of opinion born of differences of perspective, the most important being the perspective of the CINCs, who must worry not just about peacetime efficiency, but rapid and effective transition for war.

I believe the best way to bring these key issues home this afternoon is to focus on perhaps a half dozen of the score or more topics that Mr. Vander Schaaf covered in his testimony and the many, many dozens which he covered in his review.

I believe that a brief explanation of the differences in perspective and therefore in judgment between the Commanders in Chief, the JCS, and Mr. Vander Schaaf on the following points will best illuminate the real import of what is at stake in these discussions.

First, the role of the service component commanders in the unified command structure, and, in particular, the support for the role of the CINCs in the resource allocation process.

Second, the proper boundaries between CINC areas of responsibility; that is, the geographic lines of demarcation between the CINCs with large regional responsibilities.

Third, the appropriate internal organization of select unified and specified commands.

Fourth, the nature and requirements of the operational and planning process which Mr. Vander Schaaf critiqued heavily and would reduce sharply in terms of manning; and, finally, the role and the organization of the Joint Staff itself.

Before I begin, perhaps it would be useful to the members if I touched very briefly on my personal role for and qualifications for this very challenging task of speaking to Mr. Vander Schaaf's review in the name of the JCS.

I was the Joint Staff flag officer assigned to compile the formal reply to the review, Mr. Chairman, a document roughly the same length and organized in exactly the same way as the review. I personally invested some 500 hours in this task, and I orchestrated the work of dozens of people and staff all over the world who collectively devoted several thousands of hours to this review.

From a broad career perspective, I have served in several commands and staffs at issue, including the Joint Staff where I have been the Vice Director of Strategic Plans and Policy for nearly 2 years and where I deal daily with the many issues under consideration here in this committee.

I was the Inspector General of Strategic Air Command for 2 years, so, I am well acquainted with the techniques and the challenges of evaluating the missions and organizations of complex structures, and I personally briefed the Secretary of Defense and the Chiefs on the reply of the CINCs to the Vander Schaaf review.

Perhaps the most important organizational question that has been raised and was underscored here today by Mr. Vander Schaaf is that of the role of the service components of the unified commands. This issue lies right at the crux of what I described earlier as what is really at stake here with respect to relative authority and influences between the CINCs and the services.

To Mr. Vander Schaaf, this is a question of power of the CINC to hold sway over what the services view as their prerogatives. He wants to diminish what he clearly feels is the excessive influence of the services through their components on the CINC's business in order, as he puts it, to balance their authority and their responsibility, and in the process, he sees the opportunity for major manpower savings by consolidating service tasks under the CINCs.

The problem is, Mr. Chairman, the CINCs do not see it that way. They do not see their component as being in competition with them for authority, influence or for resources and they said so loud and clear in their replies to the review.

Quite the contrary, the CINCs rely on their components to do a number of vital tasks, first and foremost, to relieve the CINCs of the myriad peacetime responsibilities and functions associated with training, equipping, sustaining and administering their assigned forces.

Second, to do the detailed operational planning, programming and budgeting chores so that the CINC and the staff can concentrate on their principal mission, and that is to direct the deployment and employment of combat and combat support forces in the event of war.

In so doing, the CINC depends on the component staff to maintain and to exploit the enormously complex relationships which are essential for effective advocacy of CINC needs with the service staffs in the Pentagon and to keep his span of control manageable.

If the CINC did not have components to do this, Mr. Chairman, it would either require a huge staff to do it directly for him or to rely on the Joint Staff or the OSD staff to see to his peacetime administrative programming and budgeting needs, and neither of those staffs are manned or appropriately situated to best know what the requirements of the CINCs are.

Listen to the words of the Commander in Chief of the Unified Transportation Command or CINCTRANS, as we call him, on this score, he who would be a presumed beneficiary of Mr. Vander Schaaf's proposal to abolish service components of the Military Airlift Command, the Military Sealift Command, and the Military Traffic Management Command.

In his reply to the review, CINCTRANS observed that, "each component interfaces on a daily basis with their respective service staffs in matters pertaining to fiscal and business and negotiating policy, law, programming, contracting, personnel policy and procurement. These channels are vital to the component in performing their mission in peace and war and are simply not available from any other sources within the DOD organization.

"The recommendation to create a unique Unified Transportation Command without normal service components fails to recognize the importance of these relationships or to appreciate the scope of the changes that would be necessary to create this specialized support within either his own headquarters or on the Secretary of Defense's staff."

The CINC went on to say that, "the addition of the component command's peacetime responsibilities to his charter would create a great potential to divert the attention of the war-fighting commander from his primary war-fighting mission. Involving the CINC in the peacetime cargo movement would mire his staff down in the myriad day-to-day management problems associated with multiple mode transportation assets at the very moment when he is trying to put together his ability to build a wartime capability".

The final point that CINCTRANS makes on this score of the role of his service components is that, "the removal of the services and the departments from the resource allocation process would significantly complicate his programming and budgeting chores.

"The healthy scrutiny and priority review afforded programs by the services and departments and the PPBS would be lost. In addition, there would be a great potential to lose the very service advocacy which comes to bear in this process for the requirements which he holds most dear," and that brings me to my second point, Mr. Chairman, that is, the role of the CINC in the resource allocation process.

Mr. Vander Schaaf proposed two alternatives in his review to the present system. In the present system, the CINCs rely on their components to compete through their respective service staffs in order to ensure that their needs are met in the budget process.

The CINCs submit integrated priority lists of requirements to the service chiefs and to the Chairman in order to make their major war-fighting needs known and the services are required to report to the Secretary of Defense on the degree to which they have met those requirements.

Finally, the CINCs have an opportunity to participate as equal partners. In fact, they are required to participate in the Defense Requirements Board, which is the court of last resort in the Pentagon budgeting process.

I say again that the telling point in their replies on this subject to Mr. Vander Schaaf's alternative recommendations which would ostensibly enhance their authorities as CINCs is that they prefer the present system to either of the two alternatives that he proposed.

Why is that? First of all, because they all know that the expertise and the most effective advocates for the resources which ultimately serve the CINCs' needs lie with the service components and on the service staffs.

Second, because they are responsible people and because they know that in a resource-constrained environment, allocation decisions must be made centrally where the services, the Joint Staff and the OSD staffs have a global perspective on relative needs and priorities among the CINCs.

Let me read you a brief quote from the Commander in Chief of Forces Command on just this point.

He speaks to the larger issue of how to divide up resources in a constrained resource environment, and he is speaking, for example, to the chaos that would result if we tried to split up the defense pie amongst all the service sectors.

He notes that, "because the geographical CINCs are responsible for only a portion of the world, they view defense needs from a restricted perspective, their portion of the globe. Historically, DOD has resisted pressure to carve out the defense budget by theater or amongst individual CINCs. Noting that as long as resources are insufficient to satisfy everyone's needs, the output of the budget must be viewed against global commitments and not in separate theaters, and this problem is only to get worse as resources continue to shrink."

I would like to continue now, Mr. Chairman, to a third point, and at this juncture, my comments on Mr. Vander Schaaf's proposals transition from issues which focused on the proper organization of what he called the supporting CINCs, that is, TRANSCOM and SPACECOM and Special Operations Command, to his wide-ranging commentary on a whole host of other organizational matters having to do primarily with the internal structure of the CINCs organizations and the boundaries between what we call the geographic CINCs.

Let me address first the questions of structure. I do not intend to recover all of the ground that Mr. Vander Schaaf plowed in my own comments. I would be happy to address any questions you might have following or for the record, but let me just touch on two or three organizations which he mentioned in order to make a larger point, if I could.

Let me clarify at the outset that I believe that at this point, we are beginning to range rather far afield from the matters of manpower and organizational routine, which perhaps are the most appropriate to address by those whose proper business is the efficiency of organizations.

The subject matter here goes to what Mr. Vander Schaaf referred to as organizational concepts; that is, the bedrock concepts which underlie the structure of the Unified and Specified Commands.

In that regard then, I want to stress that this is precisely the crossroads where differences in judgments about organizations emerge because of differences in perspective.

Between a well-meaning and experienced observer like Mr. Vander Schaaf and the equally well-meaning and experienced CINCs who are also charged with the responsibility and given the authority to organize their commands according to their best judgment about how they must meet both peacetime and wartime tasks, a key authority which was underscored in the Goldwater-Nichols legislation.

That is a crucial distinction, Mr. Chairman, because the preferences and perspectives of an efficiency expert may well and frequently do differ from those of a combatant CINC who must be able to transition from a peacetime to a wartime footing on a moment's notice, who must have a staff and an organization that is capable of surging in a matter of minutes or hours to cope with a massive influx of reinforcements into his theater and not be overwhelmed by the thousands of actions which must take place quickly and smoothly in order to get deploying forces bedded down or, if necessary, directly into combat upon arrival.

These concerns are exactly what is at issue, for example, with Mr. Vander Schaaf's proposal to eliminate the naval component of EUCOM, or the Army component in the Pacific.

Let me just read to you briefly some excerpts of what these two CINCs had to say about these proposals, and I would note right here, Mr. Chairman, that these are not new questions. They have been revisited time and again, but each time, those who would sit in judgment over the CINC have deferred to his judgment about the differentiation between his peacetime structure and his war-fighting requirements.

With regard to the naval component of CINCEUR here, let me read you the CINC's words. "The recommendation that DOD dispense with a separate U.S. NAVEUR Command and, instead, direct that CINCLANT Fleet also serve as the EUCOM Navy component commander, will have an adverse impact on the operations of the U.S. 6th Fleet and CINCEUR's war-fighting capability for a number of reasons.

"First, the recommendation violates the concept of unity of command. The division of command would be detrimental in peacetime as both EUCOM and LANTCOM were compelled to fashion LANTFLEET in the manner they both saw fit to carry out their war-fighting needs.

CINCLANT Fleet cannot be an effective objective advocate for issues in which there is disagreement between CINCLANT and CINCEUR if he were the naval component commander on both of their staffs. Worse, the division of command would be disastrous in wartime", and this is the CINC speaking, "as in the NATO framework, CINCLANT and SACLANT and CINCEUR and SACEUR, two major NATO commanders, would be competing with each other for the same assets from the same supporting commander and his staff."

With regard to the question of WESTCOM in the Pacific, CINCPAC's Army component, this is CINCPAC's response to the suggestion that WESTCOM be disestablished and replaced instead with a handful of planners drawn out of Forces Command. Here are the impacts that he would see.

Number one: "It would remove the only headquarters that is accredited to do peacetime Army planning for the development of campaign general war and contingency plans to include offensive ground operations throughout the Pacific AOR.

"Second, it would prevent responsive ground planning during a war which may have Army forces up to the corp level deployed in his theater.

"Third, it would deny a Pacific-oriented theater Army headquarters, staffed and trained with the CINC in accomplishing the manning tasks which have been given to it.

"Fourth, it would degrade the ability to prepare for the critical coalition of warfare effort in his theater." WESTCOM, he says, "has clearly been a major and increasingly important contributor to improving our contacts association and inter-operability with key friends and allies."

Mr. Vander Schaaf observed that there are no right answers, Mr. Chairman, that there are no exact correct ways to organize. Well, in making those judgments, you have just heard from two senior commanders who object to the recommendation seen from a peacetime perspective that two of their component commanders be eliminated.

If the committee does intend to pursue questions about the role of components, I would ask that they at least take care to consult these two commanders at greater length on their views on this score.

Finally, Mr. Chairman, before leaving this point of organizational structure, I want to speak briefly to the question of Alaska as it was raised in Mr. Vander Schaaf's review and his written testimony and his comments today.

He lays out very nicely the difficult and complex problems which have long been associated with the Alaskan Command arrangements. He also notes that these problems have been linked to differing views between the Department of Defense and the Congress as to their resolution.

What is not clear to me is why he dwells on that point in his testimony, written and spoken, here today. The facts are that the military establishment has long been aware, concerned about and on record on this subject and, second, through continued diligent and responsible dialogue has arrived at a solution which will meet the objectives of all concerned on this score.

The details are contained in the press release from Senator Stevens of Alaska, which I will submit, if you would like for the record. A release, I might add, which was made on the 27th of December of last year.

[The following information was received for the record:]

NEW MILITARY COMMAND STRUCTURE TO BENEFIT ALASKA

The command structure of the military forces in Alaska will be reorganized to provide greater benefits to the State as well as to the Nation, Senator Ted Stevens told the Anchorage Rotary Club today.

Stevens outlined the results of his recent meetings with Defense Secretary Frank Carlucci, Navy Secretary Will Ball, Deputy Defense Secretary Will Taft, Commander in Chief of the Pacific Adm. Hunt Hardesty, Pacific Fleet Commander Adm. Dave

Jeremiah along with Gen. Tom McInerney of the Alaskan Air Command and Gen. Tom Fields, Commander of the Sixth Light Infantry Division and members of the Alaska Civilian Advisory Board.

The reorganization will recognize the global significance of the defense of Alaska, Stevens said, while assuring interaction among all military leaders in the Pacific.

"The new structure permits Alaska to be a visible partner in the defense of the Pacific while maintaining our ability to defend Alaska," Stevens said.

"The Alaska Command's inclusion in the Pacific theater operation will be a constant reminder that the era of the Pacific Rim's strategic importance is upon us," the Senator said. "Equally as important, it recognizes the concerns of Alaskans."

The need for reorganization goes back to the mid-1970's, Stevens explained, when the Alaska Command became a casualty during the Department of Defense's drawdown in the aftermath of the Vietnam war.

"Scratching for dwindling resources, the Alaska command was at a disadvantage in promoting the global significance of the defense of Alaska," Stevens said.

The Senator applauded the dogged determination of Alaskans in working toward a meaningful and permanent solution, rather than "a superficial, expedient fix to the command relationship.

"Under this new alignment, our military will be partners in a force that stretches from the North Slope as far south as San Diego, and as far west as the Persian Gulf. Our inclusion in this concept guarantees focus on the Pacific Rim," the Senator said.

"The Soviet military presence in our area is rapidly increasing," The Soviets' navy in the North Pacific is as large as our entire U.S. Navy worldwide. The Soviets have 58 army divisions in place east of the Urals.

The new command proposal would mean that the Sixth Light Infantry Division would comprise more than half the Army forces in the Pacific, exclusive of Korea, Stevens said.

The new alignment would improve the likelihood of additional Air Force capability, he added, noting the already dramatic growth of the Air Force in Alaska in the 1980s, "from barely a squadron of old 1960s-vintage defense aircraft in 1981 to state-of-the-art F-15s, A-10 combat support aircraft, AWACS surveillance aircraft and a new squadron of tanker aircraft."

The resolution of the homeporting initiative will clarify the Navy's role in the new command structure, Stevens said, "The national military leadership is interested in a naval presence in Alaska for geostrategic reasons. But make no mistake, they are far more interested in the domestic and international implications of Alaska's willingness to finance this proposal," the Senator said.

Legislation to assure a smooth transition to the new command structure will be among his top priorities in the 101st Congress, he said. Stevens is the ranking Republican member on Defense Appropriations.

"In addition, the recent appointment of Senator Dan Inouye as Defense Appropriations chairman will mean the Pacific focus of our Senate Appropriations Committee will now be second nature," Stevens said.

"In working through this thorny problem, the Alaskans on the Civilian Advisory Board and I have had the pleasure of working with outstanding military and civilian professionals," Stevens said, "The understanding that this dynamic combination of military and civilian leaders has reached will assure Alaska a strong voice."

I would like to come now, Mr. Chairman, to my fourth point, and that is on AOR boundaries a topic which, in my judgment, has virtually nothing to do with questions of manning or organization efficiency of the type that we believe that the SECDEF intended when he issued Mr. Vander Schaaf's charter. I do not pretend to speak for the SECDEF, but the feeling of the CINCs and the JCS is that when Mr. Vander Schaaf got into the fundamental questions of how Areas of Responsibility are divided between combatant CINCs that he may well have run the risk of exceeding his background and his experience.

Of all the questions which the Joint Staff action officers and flag officers fear to address, it is undoubtedly the business of AOR boundaries. Why is that? Because it invokes a myriad of issues each with its own retinue of advocates, all of whom have good arguments, but none of whom have what are demonstrably the right answers.

The question of where to draw boundary lines gets right in the middle of service doctrine, force allocation, peacetime and wartime tasks, highly sensitive political-military relations, both internal to the U.S. Government and in our foreign policy, and all manner of other considerations.

Mr. Vander Schaaf plunged fearlessly into the middle of this fray with his own opinions about how CINC AOR boundaries should be drawn, and he makes proposals which would have an enormous, sweeping impact on the division of responsibilities and tasks among CINCEUR, CINCCENT, CINCPAC and CINCLANT.

He proposes, for example, a major change in the responsibility for nations in Sub-Saharan and Africa, thus moving numerous countries from the CINCEUR to the CINCCENT AOR. His reasoning was that CINCCENT was more experienced in dealing with Third World problems which abound in this region, and that his organizational tasks would be better served by expanding his role on the African continent.

CINCEUR, as you might imagine, took a very dim view of this logic and made the following comment: in his view, "CINCEUR is in the best position to maintain the coordination and cooperation with European allies who have significant political, economic, military, historical and cultural interests in Africa." In NATO, our European decisions and programs, often relate to African issues, for aid levels, military assistance and other training.

EUCOM's familiarity with European nations gives us a more complete perspective for coordinating African military policies. The AOR alignment in its current form is correct militarily, politically, and historically.

Mr. HUTTO. General, I do not want to rush you too much, but the members do want to have time for questions. If you could summarize as quickly as possible.

General BUTLER. I have just two points remaining, and I will move through them now, Mr. Chairman.

But if I might say, I feel myself at a bit of a disadvantage in this testimony simply because Mr. Vander Schaaf's review is in the public domain, and the reply of JCS and the CINCs is not.

Mr. HUTTO. We want it to be. Will you submit that?

General BUTLER. Sir, it is not mine to submit. It is the province of the Secretary of Defense. It was submitted to him.

Consequently, I spent a little more time this afternoon because I wanted to convey some of the sense of the feeling——

Mr. HUTTO. Well, what you are saying is of great interest and importance, and we appreciate that.

General BUTLER. May I speak then to just two remaining points?

Mr. HUTTO. Sure.

General BUTLER. First the operational planning process and then a personal word or two about the Joint Staff as I have seen it in my own experience.

I will end on these two points, Mr. Chairman, because I believe that they lie at the very heart of the kind of issues that we are talking about today, and that is, the capability of military staffs, the Joint Staff, the staffs of the services and the CINCs, to do their principal job, military planning.

These are matters in which I am personally and deeply involved on a day-to-day basis in my own professional responsibilities.

As I read in Mr. Vander Schaaf's review and heard again today in his testimony, he made a very lengthy critique of what he described as operational planning. I have found and continue to find his comments so off the mark that it is very difficult to make heads or tails of what he has said.

He, in fact, is dealing with the single most important and complex process in the military establishment, a process which at some point in its evolution touches every one from the Commander in Chief right down to the last sailor, soldier, and airman.

It is a process on which there are only a handful of masters over a scope of activities which interplay with the Planning Program and Budgeting Process, the joint strategic planning process, and the joint operational planning process in the Department of Defense.

I think that, Mr. Chairman, rather than dwell on this point, I will move to closing and, if you do not mind, I will submit this portion of these informal remarks for the record.

Mr. HUTTO. All right. If you would, please.

General BUTLER. Then, let me move then to the last, and I will use the word, allegation, from Mr. Vander Schaaf, which has to do with the role and the organization of the Joint Staff.

I end on this point not because it is necessarily the most important, but because Mr. Vander Schaaf makes such a harsh critique of the Joint Staff in his review and in the remarks which were submitted today, and he uses that critique to recommend an enormous zero-based review, not just of the Joint Staff, but of virtually the entire military establishment, from OSD to the service staffs, to the CINCs and their components, field agencies and so on.

That is a breathtaking proposal, Mr. Chairman, one which would consume untold time, effort and costs running, I am sure, to many millions of dollars, and I think an effort which, in the final analysis, would again come down to the matters of judgment of the kind that we have talked about today on extremely complex and highly interrelated questions—questions which, as Mr. Vander Schaaf has noted, have no right answers.

Foremost among those judgments, I think, and very much to the issue of the proper role of the Joint Staff is the meaning of the word "joint" itself. That question lies at the heart of Mr. Vander Schaaf's criticism that the Joint Staff works too slowly because it worries too much about incorporating the views of too many players, and especially the services; that the Joint Staff is still primarily serving the corporate JCS and not the Chairman, that the service headquarters are still too powerful in comparison to the Joint Staff itself.

Mr. Chairman, I have served, going back to when I first came to the Pentagon in 1974, previously with the Joint Staff, and more recently, 2 years on that staff this May 15th. I work in the Directorate which handles nearly two-thirds of the substantive issues in the joint arena, and every one of which crosses my desk, and I would say, Mr. Chairman, that I do not recognize the rigid misdirection and ill-structured, service-intimidated staff which has been described by Mr. Vander Schaaf, and I think this is greatly to the credit of the Goldwater-Nichols legislation which was passed in 1986.

It had an enormously salutary impact on the workings, the attitudes, and the procedures of the Joint Staff. It does raise the fundamental question, however, Mr. Chairman, of relationships between the Joint arena and the services to manage the difficult, delicate balancing task which lies at the very core of the kind of observations with which you are faced today—how to divide responsibilities and tasks between joint agencies, such as the Joint Staff or the Unified CINCs, and their service components. What does this imply? My closing thought, Mr. Chairman, is this: that, in my view, jointness means by definition that it is inclusive of the services. It means community of effort and it means harmony among adverse elements.

I think that the process is and must continue to be fundamentally collegial, but a process which is, nonetheless, punctuated periodically by very sharply divergent opinions on individual issues.

But with respect to the purposes of the Joint Staff and whom we work for, there is no question in our mind that we work for the Chairman. Our challenge is to balance our responsibilities to the Chairman and to the CINCs, with the responsibilities to ensure that the expertise that lies with the services is properly incorporated.

I believe that we have made great progress in doing that, Mr. Chairman. I believe that we have made great progress in working with the staffs of the CINCs. I believe we have every day a clearer understanding of our responsibilities vis-a-vis supporting the CINCs and the Chairman, versus making sure that we balance the competing needs and opinions of the services.

So, how does one then get to the bottom line of all of this? What have we here this afternoon? I think what you see, Mr. Chairman, is virtually a collision of judgment on the most basic questions of U.S. military command structure, organization, relative roles and authorities of CINCs and services in the JCS.

None of these questions that you have heard is new. They have been visited and revisited time and again.

The thought that I would leave you with then is that you are being asked to compare in this collision of judgments the experience of Mr. Vander Schaaf and his review team, experience which in Mr. Vander Schaaf's case represents over 24 years of background, with the experience and judgment of the CINCs and the JCS representing some 500 years of experience, direct hands-on experience with day-to-day responsibilities of seeing to the tasks which they must discharge not only in peacetime but in wartime.

I will end my statement there, Mr. Chairman, and be happy to take your questions.

PREPARED STATEMENT OF MAJ. GEN. GEORGE L. BUTLER

Mr. Chairman, members of the Subcommittee, I am pleased to accompany Mr. Berteau and to address with you the observations and proposals contained in the Review of Unified and Specified Command Headquarters. I am quite familiar with the Review in that I was the Joint Staff Flag Officer assigned to manage the assessment of the recommendations made by Mr. Vander Schaaf's Review Team and to prepare the formal Reply of the JCS and the CINCs to the Secretary of Defense.

That proved to be a daunting task, one which ultimately consumed several months of effort. In point of fact, the painstaking job of a line by line evaluation of the Review, given the remarkable scope and number of its recommendations, required a period nearly four times longer than the time allotted to the Team by Secretary Carlucci to accomplish its work. Indeed, the waters have still not calmed, more than a year later, as the Services and the Unified and Specified Commanders continue to implement the SecDef's decisions viv-a-vis the Review.

These comments are not by way of complaint, Mr. Chairman, but rather to underscore my first point which is that this Review received as much or more attention, throughout the entire global military command structure, as any other document which competes for the time and managerial energies of our most senior military leaders. The reason for this careful scrutiny stems, as I alluded a moment ago, from the fact that the Review Team took a very broad and responsible view of its charter to seek reduction in manpower levels and overhead costs, with particular attention to overlapping responsibilities, duplication of functions and excessive layering of organizational echelons. To this point, Mr. Vander Schaaf notes specifically that he made a conscious decision "not to recommend any across the board percentage reductions." He felt this approach was inappropriate, and typically born of frustration over the complexity of DoD headquarters structure. He also cites his belief that "competing interests prevent any consensus on specific corrective actions," and makes the assertion that there is "an overall prevailing consensus that headquarters are too large, ineffective and not adding value."

These comments by the Review Director were very unsettling to the JCS and the CINCs who are charged with responsibilities for managing what are indeed complex headquarters; who understand why consensus is difficult to achieve on such relatedly complex matters of manning and organization; and who would certainly be wary of the conclusions of a Review which began with the assumption that their headquarters were overmanned, ineffectual and non-productive. This unease was compounded by Mr. Vander Schaaf's candid admission that his Review was not done to audit standards, but rather was principally informed by his "24 years of experience in Defense matters," and the experience of his Team members.

While no one questions Mr. Vander Schaaf's experience, his approach, coupled with the presumption that headquarters were ripe for pruning, has the unfortunate overtone of discrediting not only the wealth of experience represented, both individually and collectively, by the JCS and the CINCs, but the value of their direct, day-to-day judgments about the best way to organize to meet their peacetime and wartime responsibilities. My second point, then, Mr. Chairman, is that where Mr. Vander Schaaf extended his charter into questioning the core structures of the Unified and Specified Commands, the boundaries of geographic areas of responsibility, and the operation and tasks of intelligence and planning organizations, his personal perceptions were bound to collide with the deeply held convictions of senior military leaders who have grappled for years with such questions. These convictions stem from perspectives which are unique to commanders of large organizations charged not with just the inherent responsibility to manage efficiently in peacetime, but, more importantly, to ensure these organizations can transition rapidly and effectively to a wartime footing.

This brings me, then, to the principal thrust of my remarks, which is to convey to you the major objections of the JCS and the CINCs to the Review and its recommendations. The singular point to be made at the outset, Mr. Chairman, is the concern of these senior commanders and advisors that implementation of the key proposals of this Review would seriously diminish the ability of the armed forces to carry out their assigned responsibilities. This concern stems primarily from the disruptive effects inherent in the Review's recommendations, which if implemented, would overturn proven organizational philosophies, core elements of which have been codified in public law for decades.

Foremost among these recommendations is the proposal to eliminate all service components of the supporting CINCs (SOCCOM, SPACECOM, TRANSCOM), the Army component of USPACOM and the Navy component of USEUCOM. This proposal would alter, fundamentally, the organizational philosophy and tasking prescribed by Title 10, U.S. Code and DOD Directive 5100.1, which mandate that the Service departments are responsible for "organizing, training and equipping" the forces provided to the CINCs. The CINCs have no desire to take on these enormous additional peacetime tasks, which would divert attention from their wartime planning and exercise responsibilities, and significantly weaken their ability to influence the construction of Service Program Objective Memoranda (save the special case of CINCSOC who has his own Major Force Program). The CINCs rely strongly on their Service components both to maintain ready forces and to negotiate effectively for their sustainment and modernization in the lengthy, complex Planning, Programming and Budgeting System process.

The Commander-in-Chief of the Unified Transportation Command had especially cogent rebuttal arguments which capture the fundamental concerns voiced by virtually every respondent regarding the role of component headquarters.

CINCTRANS noted first that, "The Services are charged by law and the JCS to train, equip, support, and administer forces. To effect this recommendation would violate that basic doctrine and require changes to Title 10, US Code. USTRANSCOM is charged with a go to war mission and the addition of this peacetime support role will divert the command from its primary task. Additionally, divestiture of service-unique missions of the components will likely provide no manpower savings and in many cases may require more to maintain the same level of service...."

He further observed that, "Each component interfaces on a daily basis with their respective service staffs in matters pertaining to fiscal and business negotiating policy, law, programming, contracting, personnel policy, and procurement. These channels are vital to the component in performing their mission in both peace and war and are simply not available from any other sources within the DOD organization. The recommendation to create a unique unified transportation command without normal Service components fails to recognize the importance of these relationships or appreciate the scope of changes necessary to create this specialized support within either the unified command headquarters or the SECDEF staff organization...."

USCINCTRANS went on to say that, "The addition of the component commands' peacetime responsibilities to the USTRANSCOM charter would create a great potential to divert the attention of the unified commander from his primary war-fighting mission. Involving USTRANSCOM in peacetime cargo movement, at this time, would mire the staff in the myriad day-to-day management problems associated with multiple mode transportation assets when we are trying to build our ability to mobilize in wartime."

Finally, he makes the important point that, "Removal of the services and their departments from the resource allocation process would significantly complicate programming and budgeting. The healthy scrutiny and priority review afforded programs by the services and departments during the PPBS process would be lost. This might not be as important a factor if we had sufficient resources for our needs--but we don't. In addition, there is a potential loss of Service advocacy due to less direct involvement in key transportation and procurement actions."

This latter point explains the CINCs' lack of support for another of Mr. Vander Schaaf's major proposals, i.e., that their role in the resource allocation process be changed to provide either a pool of O&M funds to be drawn on uniquely by the supporting CINCs; or that selected Program Elements be made the responsibility of these CINCs. The difficulties entailed in either, but especially the latter, of these notions are daunting. In a period of flat or shrinking budgets, the need for centralized prioritization and allocation becomes doubly important, particularly when numerous CINCs are competing for the same forces or urging support for different programs competing for the same resources.

Here again, the CINCs were loud and clear in rejecting these proposals, notwithstanding the fact that Mr. Vander Schaaf's explicit purpose, as stated in his Review, was to expand their influence in the budget process. CINCPAC made the cogent point that "direct responsibility for programming and budgeting would significantly detract from the time available to a unified CINC to do his warfighting mission." This comment directly reinforces my previous point regarding the role of the Service components, who are best suited to grapple with the daily detail of organizing, training and equipping the forces assigned to the warfighting CINCs.

Of equal concern is the author's misperception of the multifaceted character of the modern planning process. In recommending wholesale cuts in Plans staffs, the Review showed little appreciation of 1) the distinction between tasks associated with the Planning, Programming and Budgeting System, the Joint Strategic Planning System, and the Joint Operational Planning System; 2) the large strides made in recent years through the Base Case Family of Plans Concept; 3) the impending synchronization of plans shortfall analysis with the Program Objective Memorandum process; 4) the level of detail required by higher headquarters to allocate intelligently scarce resources and deconflict supporting plans; 5) the differences between supporting plans and basic plans; and 6) the nature of general war plans versus theater contingency plans. No aspect of military art is more dynamic and intricate than operational planning, a process which the Review Team did not leave sufficient time to master.

CINCEUR was highly disturbed when he learned of the Review Team's recommendations to make deep cuts in headquarters' planning staffs, and sharply disagreed with the Team's premises and conclusions. He noted that "the time consumed in the deliberate planning effort is both detail intensive and fully justified, especially in the many thousands of individual scheduling and transportation transactions involved in developing an executable deployment flow with limited strategic and intratheater lift assets. Mr. Vander Schaaf and his staff have drawn unfounded conclusions based on a failure to understand the deliberate planning process. The points are not that difficult to understand. In hierarchical, complex systems that are resource constrained, time-sensitive and functionally interconnected, even small changes at higher levels cause extension restructuring at the more detailed levels. The DOD budget is a close analogy." CINCLANT echoed these sentiments in his criticism that, "the report lumps together OPS and plans functions at all echelons, judges they are doing identical 'operational planning' and therefore ripe for manpower reductions. Recommendations flowing from this assumption simply do not stand up under analysis. In reality there is little duplication between Operational Directorates and Plans Directorates. Planning encompasses a spectrum of global planning, programming and budgeting, strategies, security assistance, regional and global contingency planning. Operations encompasses day-to-day operations, contingency execution, exercises, and training. Existing redundancy in senior and subordinate staffs 1) is consistent with statute and doctrine, 2) provides reasonable span of control and 3) is necessary for rapid mobilization, tactical and strategic reserve, and execution of global requirements of national strategy."

A serious disregard for responsiveness, flexibility and the demands of the Emergency Action Message system is reflected in the Review's treatment of intelligence organizations, command posts and watch centers. The Review challenges carefully engineered manning standards for critical 24 hour positions. The impression left is that in many cases duty personnel can simply be "on call," not recognizing that immediate response to threats or emergency situations is crucial to saving lives, and essential to national security. Equally disturbing, the proposals for consolidation and centralization of operational intelligence functions would reduce responsiveness; cripple essential redundancy; and presume a robust and survivable communications network which does not exist and would be prohibitively expensive to pursue.

A final aspect of the Review which drew strong criticism were the numerous recommendations regarding the Unified Command Plan. In this regard, the JCS, the CINCs, and the Services believe Mr. Vander Schaaf exceeded both his charter and expertise. With only superficial rationale, he proposed redrawing the global boundaries of CINC responsibilities; disestablishing numerous headquarters; and establishing a new subunified command in the face of sharp regional objections. These are all matters of extraordinary complexity, involving not just purely military questions, but keen domestic and international political sensitivities as well.

In summary, having dealt at great length with both the philosophy and the specifics of the Review, the JCS and the CINCs were profoundly concerned that the Review's recommendations would dramatically alter proven organizational precepts; destroy command relationships which have either stood the test of time or which are so new as to be still evolving;

and, most significantly, seriously degrade the ability of military organizations at all levels to transition rapidly and effectively from peacetime to wartime.

In conclusion, Mr. Chairman, I would underscore three points. First, that even in those cases whereby the CINCs would ostensibly benefit from the Review recommendations, i.e., abolishing and thence consolidating Service component staffs directly under the CINC, or expanding their role in the resource allocation process, they have explicitly rejected these proposals. In other words, no matter how well intended, the CINCs do not want this kind of help. They view it as a distraction from, rather than an enhancement of their ability to focus on wartime tasks and to participate responsibly in the PPBS process.

Second, it is both cogent and gratifying that the SecDef, who gave Mr. Vander Schaaf his charter, also explicitly rejected these same proposals, based on direct personal engagement with the JCS on the merits of these issues.

Finally, the senior military leadership believe that this matter is now best put to rest. Mr. Vander Schaaf's Review prompted a major reassessment involving hundreds of man hours.

Fundamental questions were examined and key judgments about organization, structure and doctrine were reaffirmed. Conversely, significant adjustments were also made and continue to be implemented. However, in retrospect much of what proved useful and necessary could have been achieved, and in many cases was already being addressed, through less hectic and sweeping methods of assessing organizational efficiency. The current budget climate has in fact prompted a host of just such orderly, focused studies, as the Services adjust to a variety of mandated and self-initiated manpower and personnel reductions.

Thank you, Mr. Chairman. I would be happy to entertain your questions.

Mr. HUTTO. Thank you very much, General, for your good statement, and certainly it was very important for us to hear the response of the JCS to Mr. Vander Schaaf's study.

In fact, I think that we need to have the complete assessment of the report of the JCS to Mr. Vander Schaaf's study.

Do you see any reason why we should not have that? Because we need to hear the arguments on both sides.

General BUTLER. Personally, sir, I do not think I should speak to that. This was—the reply was made at the request of the Secretary of Defense. It was submitted to the Secretary of Defense. It is in his domain, and I would have to defer to my colleague on that question.

Mr. BERTEAU. We will undertake to look at that, sir. I do not—I am not aware of any reason why that should not be done with the caveat, of course, that in some cases, we have already moved beyond that response. It was a point in time and clearly does not reflect the decisions of the Secretary of Defense.

But we will undertake to look at that.

Mr. HUTTO. If you would, please.

Mr. BERTEAU. Yes, sir.

Mr. HUTTO. General or Mr. Berteau, I was looking at the charge, I guess you might say, that Mr. Vander Schaaf had, and he says the primary objective of the review should be to reduce manpower levels and overhead costs. Particular attention should be given to overlapping responsibilities, duplication of functions, and excessive layering of organizational echelons.

Now, I know that you have had considerable experience in this area. If it had been your responsibility, do you have any thoughts on where you could have achieved this?

General BUTLER. I would say, Mr. Chairman, in that regard that of the recommendations that were in the report, something over 150, the JCS and the CINCs did accept in whole or in part some fifty-three, and that those recommendations represented something better than 500 manpower spaces.

From a personal viewpoint, I found that all of those spaces were reasonable to reallocate, although in some cases there were strenuous objections, as you might imagine, on the part of the losing organizations.

A case in point, for example, would be the disestablishment of Caribbean Command. It has only been a short while since the Deputy Secretary of Defense made a personal review of CARIB Command and found that they were doing a very efficient and effective job in discharging their responsibilities, and when the JCS first looked at this question, they continued to support the view of the DEP SECDEF in that survey.

But in the course of looking at the Vander Schaaf recommendations and in light of continuing decline in budget resources, they made the judgment that there were savings that could be made by disestablishing that command.

I would simply add as a footnote in that regard, Mr. Chairman, that as opposed to the ninety-nine spaces which Mr. Vander Schaaf said could be taken down, they restricted the amount of slots to be reallocated simply because there were functions that had to be taken back to the point where they were before the Caribbean Command was stood up, and that is on the LANTCOM staff.

So, the recommendation was to take a number of spaces back to LANTCOM, but there were significant savings as a result of the disestablishment of CARIB Command.

Mr. **Hutto**. OK. So, you have implemented fifty-three of the 150, about that?

General **Butler**. Or in the course of implementing, that is correct.

Mr. **Hutto**. OK. Now, what will the savings be?

Mr. **Berteau**. Mr. Chairman, the specific implementation as directed by the Secretary occurs over a 3-year period beginning in fiscal year 1989. The savings that were already taken in the budget decisions to make that reduction were on the order of about $55 million in fiscal year 1991, somewhat less than that in fiscal year 1990, only a very small amount in 1989, because it is anticipated that the actions probably will not be completed until pretty close to the end of the fiscal year.

So, the cumulative of that, I would have to get you for the record, but something on the order of $70 or $80 million over the 2 years, and those are all pure manpower costs and they, in fact, reflect primarily two things: the manpower that we actually reduce, 746 spaces that came out, and the cheaper costs of the manpower which we reallocated, because, in many cases, we took down officer billets within the command headquarters, replaced them with enlisted billets within the combat forces, and, so the cost of that manpower was considerably cheaper as well, and those savings are reflected in the budget.

You roll that up over a 5-year period, 1990 to 1994, and it will run you out to about, I would have to estimate, something on the order of $250 to $300 million over the 5-year period, maybe a little more than that.

[The following information was received for the record:]

Vander Schaaf Report Dollar Savings

The DOD fiscal year 1990/fiscal year 1991 President's Budget Request includes savings of $31.0 million in fiscal year 1990 and $77.0 million in fiscal year 1991 as a result of implementing the recommendations of the Vander Schaaf Report. These savings are also projected through the outyears.

Mr. **Hutto**. As you can imagine and as you well know, it is not just us, but it is you. We are under budget constraints and President Bush has indicated no growth.

So, the problem is finding savings here, and that is what Secretary Carlucci apparently wanted, but it appears that we are not really getting any. I agree that some reallocations in some certain areas certainly is justified.

I guess my question to you is, in your view, is there not any opportunity to make some savings? It has to come from somewhere. Is this not an area where we can achieve some savings?

Mr. **Berteau**. Sir, clearly, we could have made the decision to take the entire 3,000, I am rounding off, the entire 3,000 billets out of the end strength, military and civilian, and to take all the savings associated with that.

Had we done so, the dollar savings would have been substantially larger. It is possible that in a future budget review, a Secretary of Defense may revisit that, but at the time that we put the budget together this year, it was judged on the part of the Secretary and the Deputy Secretary that, in fact, adding those billets back was worth more than the marginal savings that would be obtained from cutting them down, and, in particular, the opportunity to beef up the medical support staffs.

Now, we have a situation where we are paying bonuses to retain physicians, and we have taken surveys of these physicians and their reasons for leaving DOD and I know the committee will be hearing testimony on this shortly. In our surveys of these physicians, frequently pay is not the driving reason for lack of retention. It is, in fact, the absence of appropriate medical support staff for them to perform their jobs in a professional manner, that is the number one reason for physician dissatisfaction.

So, in attempting to meet some of those shortfalls, we felt that it was, in fact, a better marginal allocation of the resources within the budget top line that we were constrained to at that time.

We are in the middle of reviewing that budget right now. Obviously, the President has directed us to review and distribute programmatically the $6 billion reduction. Being in the middle of it, I do not know where we are going to come at this stage of the game. Whether somebody puts some or all of these billets on the table remains to be seen, whether the Secretary of Defense or whenever the final decision is made on those, elects to take some of those also remains to be seen.

Mr. HUTTO. Mr. Kasich.

Mr. KASICH. Thank you, Mr. Chairman.

General, you seem to emphasize in your opening statement that it was significant for us to understand that these comments were the comments of the Joint Chiefs, not just of the Chairman.

General BUTLER. If I could correct that, what I intended to convey is that the reply to Mr. Vander Schaaf's review and its 150 plus recommendations was the reply of the Joint Chiefs of Staff and the Commanders in Chief of the Unified and Specified Commands.

The Joint Staff was the agent for orchestrating that reply, which obviously touched on inputs from all of those organizations, for examining them, for thrashing them out internally to see whether or not they would stand up to the cold light of analysis, and then ultimately to put together the formal reply, which was given first as a briefing to the SECDEF and then put together in a formal document that was transmitted to him.

Mr. KASICH. Where is the Chairman in all of this? The Chairman is the principal military advisor.

General BUTLER. When I say, of course, the Joint Chiefs of Staff, he is a member of that body.

Mr. BERTEAU. Mr. Kasich, if I might, sir, the specific point the General was trying to correct in that in Derek's testimony, he refers to the Joint Staff response, not the Chairman's response, but the Joint Staff's response.

I think the correction is in light of it was not just the response of the Joint Staff.

Mr. **Kasich**. Well, let me revisit with you just for a minute, General, the history of the Goldwater-Nichols bill, and I wondered if you were aware of the fact that the CINCs at that time testified that they did not need any additional responsibilities or any additional resources in order to communicate their budget needs to the PPBS.

Are you aware of the fact that they argued at the time against the Goldwater-Nichols bill and against beefing them up with support staff?

General **Butler**. If the argument was that they would have to take out of their existing resources——

Mr. **Kasich**. No. Their comment was we do not need the system improved because we already have enough ways to make our feelings known, period.

General **Butler**. I believe that was the same view that I reconveyed in my testimony, and that is in the——

Mr. **Kasich**. Right, right. They said at the time they did not need additional resources. The committee saw fit to give them additional resources so they could effect the budgeting process.

Now, the same CINCs or the same structure that at one point said they did not need additional responsibility or additional resources now comes back and says do not cut these areas because we need these resources in order to be effective.

It is a totally opposite view than what they expressed during the Goldwater-Nichols debate.

General **Butler**. I am not sure I follow your logic, Mr. Kasich.

Mr. **Kasich**. Well, let me explain it to you again so you can follow it.

The CINCs at the time said they did not need more resources.

General **Butler**. To do what, sir?

Mr. **Kasich**. To effect the budgeting process. Now, you are saying we should not cut the resources because these are the ways in which they effect the budgeting process.

General **Butler**. No, that is not what I am saying at all. Not at all. The CINCs have said, and apparently that is what they said before and they said it again, that they are perfectly satisfied with the present avenue available to them to influence the planning, programming and budgeting system in order to ensure that they get their resources from the annual budget.

Mr. **Kasich**. But you realize that the Congress gave them additional resources to influence the budgeting process?

General **Butler**. Some of the CINCs have, in fact, established budgeting shops to do just that.

Mr. **Kasich**. Let me explain to you what I am trying to say. I am saying that at the time they did not want additional people. They fought the idea of them having to impact the resource decision with additional people. They fought that. They said we do not need that. We do not need any more people out here. We have great access to the budgeting process.

The Congress said, CINCs, we do not agree with you. In fact, Admiral Crowe came up here when he was in the Pacific and said he needed more people. When he came up here to testify as Chairman, he took back his remarks, and I kind of questioned him on it. He laughed it off because he found himself in a difficult position now being Chairman rather than speaking as a CINC. He now had to speak as Chairman in order to accommodate the political considerations. Obviously, he could not be as clear as he had been when he was in the Pacific.

But our testimony up here from the CINCs is we do not need any more resources. The Congress disagreed with the CINCs, and we gave them more resources and not only did we give them more resources, but we gave them the right to be in control of their forces not only during wartime but during peacetime as well.

We gave them another authority they did not have and testified that they did not want to have. Now, you are telling me that the CINCs are now coming in and saying do not cut the resources that the Congress gave us to make us more effective, because then we will not be as effective. That is a totally opposite point of view as to what their testimony was before we gave them the additional resources.

Now, what is confusing about that?

General **Butler**. You are using the word resources in a very broad——

Mr. **Kasich**. People to effect the process.

General **Butler**. Or their staffs.

Mr. **Kasich**. For the PPBS process.

Mr. **Berteau**. Mr. Kasich, if I might try to respond to that and put a little perspective on it, and by no means do I intend to defend the Department's position on Goldwater-Nichols in 1984 and 1985.

Mr. **Kasich**. They were opposed to Goldwater-Nichols.

Mr. **Berteau**. Yes, sir. I am very familiar with that. I put together many of those responses, and I am very familiar with the CINCs' positions at that time, and——

Mr. **Kasich**. The CINCs were against any change in the system.

Mr. **Berteau**. If I might put it a bit in context, just prior to that time, in fact, in November of 1984, is when we began an internal adjustment which was the creation of, in fact, the CINCs' access to the programing process through the integrated priority list. I am very familiar with that. That is my own phrase. I wrote the tasker that set that up.

We had no idea at that time how it was going to work. There was, in fact, a fear that the CINCs would immediately say "I need 300 more people on my staff" in order to participate in the PPBS process.

You multiply that by ten CINCs and you have got a bit of a headquarters problem. There was a deep concern about that. There was also a concern that it might or might not work. By and large, they feel today that it is working pretty well. In fact, the track record is they win damn near all of their issues within the services, and those they do not win within the services, they win within the DRB.

I think that in that context, the argument that do not take away my component commands is not really a question of these people who work for me, I need them; it is a question of where they fit within the process and the function which they perform within that process.

Mr. **Kasich**. Well, let me explain to you that the response from the Pentagon that you are talking about, we all considered to be a ruse. We considered to be unacceptable and not going far enough, and we thought it was a smoke screen that you should have brought to the Goldwater-Nichols bill.

Mr. **BERTEAU**. You mean the creation of the integrated priority lists?

Mr. **KASICH**. Exactly. It was a good effort on your part. I commend you, but the Congress rejected it as inadequate.

Now, let me say this. You see, this General quotes all the CINCs. He says this CINC says, the CINC of Transportation, cannot survive. You know what, the CINC of Readiness said they could not survive if we did not have a readiness command.

A month later, it was abolished, and from what I can tell, we are still doing pretty well. The CINC of the Transportation Command says do not give me all these additional authorities.

Now, you know why CINCs say that? Because if CINCs do not say that, they are not looked upon as nice CINCs by the command structure in the Pentagon. We went through this in Goldwater-Nichols. It is always the sky is going to fall and then you quote CINCs where it is convenient. But if you quote CINCs on the record consistently, you find great discrepancies in their testimonies. I maintain to you that the centralized transportation command would bring greater efficiencies, not greater confusion, within that command, and I will give you quotes from CINCs that argue that centralization makes more sense.

Mr. **BERTEAU**. If I might, sir, let me take you back to 1982.

Mr. **KASICH**. Sure.

Mr. **BERTEAU**. We had a proposal very well developed within the Department of Defense to consolidate the military sealift command and the military traffic management command into a single military transportation command. Upon the decision of the Secretary and the Deputy Secretary to implement that proposal, the parent committee of this subcommittee inserted language into the 1983 Defense Authorization Act which forbade the Department from even considering a consolidation of a single function between Military Sealift Command and the Military Traffic Management Command.

The Senate agreed with that language and inserted identical language, and that prohibition was not lifted until Goldwater-Nichols after the Packard Commission strongly recommended that we do it.

I might submit, sir, that if the Congress had supported that effort in 1982, we would not be back where we are right now. It is going to take us 10 years to get back to where we were in 1982.

Mr. **KASICH**. I am not quite clear on that, but, Mr. Berteau, if you are trying to tell me that there are individual members of Congress who want to continue to hold service individuality at the highest levels, and make it sanctimonious to support the individual service priorities, you are right. It is like certain Senators defend certain units and certain sections of the country.

I mean, that is their job to do that, but I think it is just like the Navy Seals who do not want to be integrated in SOP. I mean, they have done everything they can do to buy their way out of this system, arguing that if they get put in there, somehow the Navy goes away. That is baloney, and the Secretary of Defense has now agreed with it, to his credit.

But the point of this whole thing is that the basis of his opposition to this is to quote these certain CINCs who say the CINC of Transportation, who would get more authority, is against this thing; therefore, we should be against it, or that the CINCs themselves say do not cut my resources.

It is just ironic for me to be told you cannot cut the resources of the CINCs when they are the same people who said do not give us the resources to begin with. There is not much credibility in that kind of testimony.

What I want to hear as to what makes good opposition to this stuff is, all right, if we combine the transportation command, what is it structurally that is going to—with fewer people, what is it structurally that is going to prevent the Army from getting to Europe.

That is what I want to hear. I do not want to hear this CINC says this and that CINC says that. They say all that for political reasons. The Pentagon is worse than the Congress when it comes to politics sometimes.

I am sold on what Mr. Vander Schaaf is saying, but I want to hear what you have to say when we are not in front of the microphones, when we are behind closed doors, about what we really can do and what we really cannot do, and let me just close by saying this: The military nixed the idea of Goldwater-Nichols—that, Mr. Berteau—every step of the way, to the point where the day before we were to consider it in the committee meeting, they got all the service chiefs together to tell us that this was a disaster.

Now they all say this is the greatest bill that has been created in this century. The same people who criticized it now praise it. What I want to do is to take another step forward in terms of centralizing, in terms of reducing staff, but I do not want to harm national security. Maybe you can get together with the staff up here and sit down and figure what more we can do to meet our ultimate goal, which is a more efficient Pentagon with fewer people. That is what I would like to work on you to do.

Mr. **Berteau**. Mr. Kasich, I think it is clear that we all share that very same goal, and I do not mean by the anecdote which I used there to illustrate the point of either questioning congressional prerogatives or the intentions of the Congress, but to show that actions to provide efficiency are not always easy or politically popular.

Mr. **Kasich**. One final statement, Mr. Chairman and Mr. Berteau. We hear a lot about the Joint Staff, but let me say that I do not think we have arrived at where we want to be. I say that as an author, by the way, of the resource provision for the CINCs. I wrote it.

I do not think we have gone as far as we want to go in jointness in the Joint Staff. You know why we wrote the Goldwater-Nichols bill? Because the Joint Staff dominated the proceedings for the military, and that is why we had helicopters crashing in Iran and that is why Mr. Hutto and Mr. Daniel put together the special forces, because the jointness never got done the way we wanted to get it done.

There was too much accommodation of individual service priorities. I mentioned, General, for your views on jointness, but I think you would admit we still have a way to go to accomplish our ultimate goal.

Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Kasich.

I have one question. Why would it take 10 years to get to where you were talking about?

Mr. **Berteau**. Speaking from personal perspective, sir, when one gets scars across one's back and on one's hands, one occasionally has a bit of reluctance to plunge them back into the very fire which burned them in the first place.

Mr. **Hutto**. Well, I do not know if that enlightens me on why it will take 10 years. We might need a different kind of salve on those wounds. I do not know.

Mr. **Berteau**. The clock starts ticking on the 10 years in 1982.

Mr. **Hutto**. Oh.

Mr. **Berteau**. So, we are already 6½ years down that 10 year path.

Mr. **Hutto**. Mr. Ray.

Mr. **Ray**. Thank you, General.

I am just kind of trying to put this together in my mind. I noticed that the Secretary, on December 14, made a statement in consultation with Admiral Crowe: "I have directed Derek Vander Schaaf to review the organization of the Joint Chiefs of Staff and the United and Specified Commands Headquarters and Headquarters Support activities to include component commands. The primary objective of the review should be to reduce manpower levels and overhead costs; particular attention should be given to overlapping responsibilities, duplication of functions and excessive layering of organization echelons."

Then, finally, in his final paragraph he said: "The review should begin at once. All DOD components should cooperate and provide personnel funding and other support to Mr. Vander Schaaf as necessary. They also will provide him access to records, files, tapes, and other data that he considers relevant. I expect the report on findings and recommendations to be submitted to me no later than February 1, 1988."

So, he was under direction, I suppose, to operate in that 7-week time period. Also, I notice here that General Galvin and the NATO man did not cooperate at all with the Secretary's orders, and I wondered what was the problem with General Galvin and his command.

Why was a special study being commissioned by the Secretary of Defense himself not permitted to review U.S. manpower at NATO? How much U.S. manpower, both military and civilian, is currently assigned to NATO commands?

Could you just respond to why General Galvin, according to Mr. Vander Schaaf, just never made himself accessible or allowed him to operate? As he said, even General Rogers failed to cooperate.

General **Butler**. I believe that the principal basis for his concern, Mr. Ray, was owing to the fact that he is not only CINCEUR but he is SACEUR, and in that capacity, General Galvin has juridical authority to determine the degree of inspection of his various staffs, and I believe that the reason for that rationale and giving him that legal basis is because as SACEUR, he would then be subject to such inspections from sixteen nations, and I think he is concerned about the amount of time and effort that he would expend in trying to respond to and being subject to these kinds of staff explorations of his organizational structures by that many countries.

I would say in the same breath, however, that there was made available to Mr. Vander Schaaf and his review team a whole host of briefings and as much information as they desired by the staff of EUCOM, the European Command.

I am sure Mr. Vander Schaaf was disappointed that he was not able to speak to the CINC directly. However, it was the CINC's judgment and I believe his authority to make that determination.

Mr. RAY. So, this CINC did not have to comply with the Secretary's request or orders?

Mr. BERTEAU. In his capacity as SACEUR—members of my staff were on the team that went to Europe, and it is incumbent upon us to point out that General Galvin in his capacity as CINCEUR within the United States chain of command, was extremely cooperative and the cooperation we got from CINCEUR and EUCOM staffs was, in fact, as good or better as we got from anywhere else in the world.

It was only within the discrete and defined function of his capacity as SACEUR that he exercised that jurisdictional authority.

Mr. RAY. In your final report you indicated that the review was satisfactory to the Secretary of Defense.

Mr. BERTEAU. He felt that it met his needs. It had given him a review. It had given him some options to look at. It had given him strong arguments to consider, and then, in our own internal reviews, we gave him additional advantages and disadvantages to consider. He made his decisions over a fairly reasonable period of time with respect to implementation of those, and we incorporated those that he approved in the budget, which was his original intention, was to incorporate the decisions in the budget.

Mr. RAY. So, from what I have gathered here, the Secretary felt that the report was effective and served the great purpose and that actually out of 150 recommendations, about 50 were implemented right away, is that right?

Mr. BERTEAU. I am inferring that from his actions. He never personally stood up and said, yes, in fact, this is exactly what I wanted, but, in fact, he did make the decisions based upon the recommendations of the report.

Mr. RAY. Well, I think Mr. Vander Schaaf himself indicated that the report was not perfect, but, General, I felt that you were fairly harsh in your condemnation of Mr. Vander Schaaf. In fact, if I had not known the circumstances, I would have kind of figured from listening to you that he was a very strong enemy of the United States.

General BUTLER. Oh, no, sir, Mr. Ray. I believe, as I said at the outset, Mr. Vander Schaaf's background and experience are, in fact, extraordinary.

Mr. RAY. I was on the Senate side for 9 years as a staff person, and I am here going into my 7th year, I think every one of us knows of some very frustrating situations that ought to be looked into from time to time. For 40 years the Air Force failed to come up with a plan for air defense, air bases in NATO, and only when this committee initiated a lock on the F-15E and failed to let it go forward did a similar plan come forward.

After that similar plan came forward and it died again, then we had to hold up all the military construction for the United States, our share of NATO, until we got it on track again. Now, that plan is fairly well moving forward and ahead.

So, when we come up with a report that mentions a great number of problems as this report has mentioned we can relate to that pretty well because we have seen those frustrating instances.

I would say that it does open up the door and give us a lot of room to work with and to explore and to ask for cooperation among your shop and certainly the Secretary of Defense's shop because I think that we all are pro defense and want a strong defense and want it to be effective. In order to make it work, we have to find those dollars. The only place in the whole budget that I know of where we can find dollars, not just defense, but in all agencies, is the layers of bureaucracy; and I think it is time that we examined that.

Mr. HUTTO. Thank you, Mr. Ray.

General, I appreciate your comment awhile ago. We have to find these dollars somewhere. We have to find the cuts. We do not want to impede readiness and our ability to get the job done.

Mr. Machtley, do you have questions?

Mr. MACHTLEY. General and Mr. Berteau, I appreciate the time and dedication that you both have and your obvious interest in national defense; and I am going to assure you that I, too, share that interest and commitment.

As a way of comment as a freshman congressman, let me say I think we are on a dangerous course because we are not talking about the issue. We are talking about what I called in law school a red herring.

The issue is how do we reduce our dollar expenditures, not whether or not it is a rigid ill-directed service staff versus Joint Staff. The question is how do we reduce the number of people that we have thereby reducing our total number of dollars.

I do not know what the violation of the concept of unity of command will do to readiness. I do not know what the organizational concepts and differences and perceptions are. But I do know that there was a clear directive given to Mr. Vander Schaaf to find numbers, identify bodies that could be eliminated thereby reducing our expenditures.

He came up with some 7,000 and now, as I understand it, you have adapted 700 of them, plus or minus a few. Some have been shifted over. I think we ought to look at the goal and that is to reduce, as the Chairman just stated, the numbers of bodies, not to get into arguments of joint or service staffs. I guess my question is, is the best you can do 700 eliminations, is that your best guess, or can you do better?

Mr. BERTEAU. As I pointed out, sir, the Secretary clearly had the option to take the whole 3,000 and take all the dollars associated with those 3,000, and, in fact, all 3,000 of those people by the time we finish implementing and, in some cases, that will take more than a year, those jobs will be gone. There will not be any people in them, there will not be any gaps being filled. I mean, they are going away, disappearing.

The jobs that are being filled were jobs that already existed and had been validated by manpower requirements, but we had not enough funding to fill them. Could we have elected not to fill those billets? Yes, clearly we could have done so.

Will we in some future budget drill elect to do so? I have no idea. The whole Department of Defense budget is up for grabs right now, and clearly that is not off limits. Any decision that was made in December is subject to revisiting.

At some point in time when we have additional savings that we can take from this or similar kinds of examinations, quite likely, we will consider those additional savings, but when and what those will be will be difficult for me to say at this point.

Mr. Hutto. Mr. Machtley, if you will yield for just a second—Mr. Berteau, could you provide us the specifics on these 2,990 people on where they went?

Mr. Berteau. We can give you a number of break-outs of that right now. We are currently reviewing each billet, where they came from, and making a judgment as to, in fact, how those billets complied with the specific recommendations and the degree to which they were the right billets to take down.

In the case of a couple of commands, they are basically taking this opportunity to do some additional restructuring and manpower drawdown. So, we are, for those commands, waiting to see what the results of those are, particularly Strategic Air Command, which is undergoing essentially a complete 10 percent reduction of their headquarters as a result of this, and that will not be available probably for another month or so.

We can provide you the details we have now and we will also provide you the results of the review when it is completed, which will probably be some time in April, billet by billet.

Mr. Hutto. All right. If you would.

Mr. Berteau. We could do the same for the 2,244 that were added back in terms of where those were added back by service and by category.

[The following information was received for the record:]

Service Manpower Reductions

The attached table shows the directed Vander Schaaf Report manpower reductions by Service and by officer, enlisted, and civilian category. The approved resource reinvestments are also shown.

SERVICE	VANDER SCHAAF REDUCTIONS			
	OFF	ENL	CIV	TOT
ARMY	-160	-216	-744	-1,120
NAVY	-164	-291	-195	-650
AIR FORCE	-378	-652	-131	-1,161
MARINES	-11	-28	--	-39
JOINT STAFF	-12	-4	-4	-20
TOTAL	-725	-1,191	-1,074	-2,990

SERVICE	VALIDATED REINVESTMENTS			
	OFF	ENL	CIV	TOT
ARMY	+76	+303	+744	+1,123
NAVY	+167	+292	+195	+654
AIR FORCE	+42	+384	--	+426
MARINES	--	+41	--	+41
JOINT STAFF	--	--	--	--
TOTAL	+285	+1,020	+939	+2,244

The attached three tables display the Army, Navy, and Air Force manpower reductions by major command. The Army fell short of its assigned target by 5 spaces, but the Navy and Air Force exceeded their reduction targets.
(The information follows.)

ARMY VANDER SCHAAF REDUCTIONS

	FY 1989			FY 1990			FY 1991			TOTAL			
COMMAND	OFF	ENL	CIV	OFF	ENL	CIV	OFF	ENL	CIV	OFF	ENL	CIV.	TOTAL
FORSCOM	0	0	0	0	0	101	68	30	4	68	30	105	203
WESTCOM	0	0	0	1	6	8	5	2	8	6	8	16	30
EUSA	21	0	0	1	15	87	3	13	125	25	28	212	265
SOCOM	0	0	0	1	1	1	1	1	1	2	2	2	6
USARSO	0	0	0	1	2	2	2	2	2	3	4	4	11
SPACE CMD	0	0	0	1	0	0	0	0	1	1	0	1	2
USARJ	0	0	0	2	2	4	2	2	4	4	4	8	16
MTMC	0	0	0	2	0	16	1	1	15	3	1	31	35
USAREUR	0	0	0	12	39	135	10	9	228	22	48	363	433
JOINT	10	11	14	6	17	7	14	25	10	30	53	31	114
TOTAL	31	11	14	27	82	361	106	85	398	164	178	773	1115

RESTORALS/REALIGNMENTS

Of the 379 military identified for reduction 163 were officers. Buy back of combat spaces expends only 75 officers and converts the remaining 304 to enlisted. 89% officers restorals were at company level while 95% of all enlisted of restorals were E5 and below. All 744 Civilian Strength restorals were to support medical billets in CONUS medical facilities.

NAVY VANDER SCHAAF REDUCTIONS

	FY 1989			FY 1990			FY 1991			TOTAL			
COMMAND	OFF	ENL	CIV	OFF	ENL	CIV	OFF	ENL	CIV	OFF	ENL	CIV	TOTAL
CINCLANTFLT	20	29	17	10	27	39	23	35	40	53	91	96	240
CINCPACFLT	0	0	0	22	53	8	18	71	19	40	124	27	191
CINCUSNAVEUR	0	0	0	5	7	2	5	6	7	10	13	9	32
COMSC	0	0	0	1	0	22	3	0	19	4	0	41	45
COMNAVSPACECOM	0	0	0	1	0	0	0	2	0	1	2	0	3
JOINT	22	24	3	22	18	9	15	20	10	59	62	22	143
TOTAL	42	53	20	61	105	80	64	134	95	167	292	195	654

RESTORALS/REALIGNMENTS

Restoral of end strength to ships/squadrons/medical units was on a one-for-one basis with the reductions above (i.e., 42 Officers/53 Enlisted/20 Civilians were restored in FY-89, and so on). All officer restorals were at the ensign level and over 90% of all enlisted restorals were at the junior (E5 and below) paygrades. Military restorals went to combat units (ships, squadrons, subs). Civilian strength restored to medical facilities.

AIR FORCE VANDER SCHAAF REDUCTIONS

COMMAND	FY 1989			FY 1990			FY 1991			TOTAL			
	OFF	ENL	CIV	OFF	ENL	CIV	OFF	ENL	CIV	OFF	ENL	CIV	TOTAL
USAFE	0	0	0	0	0	0	44	70	13	44	70	13	127
AFSPACECOM	76	7	0	0	0	0	4	7	0	80	14	0	94
SAC	34	17	3	81	191	70	0	0	0	115	208	73	396
PACAF	47	89	12	0	0	0	0	0	0	47	89	12	148
TAC	47	95	25	0	0	0	0	0	0	47	95	25	167
MAC	0	0	0	0	0	0	19	86	0	19	86	0	105
JOINT	19	16	0	21	22	6	19	27	6	59	65	12	136
TOTAL	223	224	40	102	213	76	86	190	19	411	627	135	1173

RESTORALS/REALIGNMENTS

426 Spaces were realigned to meet aircrew/maintenance/security requirements

END STRENGTH REDUCTIONS

747 Spaces (344 Officer, 272 Enlisted, 131 Civilian) reduced from end strength

Mr. MACHTLEY. I clarify that there were 2,990 that were eliminated, not 2,400; but what I am asking is, can we eliminate more than 746 military and civilian spaces?

Mr. BERTEAU. I am not sure how to answer that, other than what—yes, clearly, we can eliminate the whole 2,990. The Secretary chose not to do that.

Mr. MACHTLEY. In your opinion, could we, without degrading our readiness?

Mr. BERTEAU. In my opinion, I think, in fact, the add back of the 2,244 is probably one of the best things that I have done in my office to enhance readiness in the last year. The places where they went and we looked at billets that were rejected because we could not accept that, in fact, those billets would contribute to enhanced military capability, but I think I feel very comfortable saying that those 2,244 billets added back will contribute very directly to enhanced military readiness and capability.

Mr. MACHTLEY. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Machtley.

Mr. Tanner.

Mr. TANNER. Thank you, Mr. Chairman.

I have been enlightened somewhat this afternoon by both the testimony of Mr. Vander Schaaf and these two gentlemen. All of them are well prepared.

I am a freshman congressman like Mr. Machtley. I read on page 47 of Mr. Vander Schaaf's testimony that despite the unavoidable recognition that Department of Defense resources are constrained and can be expected to become more so during the next few years, neither during the review itself nor during the Joint Staff commander response have I seen anything that indicates there is a commitment to other than a status quo.

Mr. Berteau took six pages to verify that statement, and General took fourteen, in my opinion.

Now, having said that, is General Galvin NATO commander? You said—what is this SACEUR? What is that, General?

General BUTLER. That is Supreme Allied Commander Europe, sir. That means that he is the supreme military commander for all of the military forces of the North Atlantic Treaty Organization.

Mr. TANNER. All right.

Mr. HUTTO. So, that means, in essence, not just United States, but the other allied nations.

General BUTLER. That is correct. He is also the senior U.S. military commander, but he wears two hats.

Mr. TANNER. In this hat that you just described, he may or may not conform to the wishes of the Secretary of Defense as he sees fit?

General BUTLER. He has special authorities and prerogatives in that capacity, yes, sir.

Mr. BERTEAU. The way you have stated it, Mr. Tanner, makes it much broader than his actual authority is, but within specific areas, one of which was, in fact, independent reviews of the NATO headquarters, which is a multi-national organizational headquarters, he has the authority to preclude any national entity from doing a review against his wishes at that stage of the game, and that was a defensive mechanism agreed upon by all the NATO allies when the command was established in order to preclude individual national interests from taking unnecessary privilege or priority over the international treaty organization.

Mr. HUTTO. Mr. Tanner, if you will yield just a moment on that, because the United States is a participant in the Supreme Allied Command Europe, do you mean to say that we or none of the nations could review that? How do we get a handle on that?

Mr. BERTEAU. We will have to take a look at that. I think that it is within the authority of the SECDEF. There are limitations there, but, clearly——

Mr. HUTTO. If you could provide for the record——

Mr. BERTEAU. We will give you some assessments of what the specifics are associated with that, the limitations and prerogatives of the Secretary of Defense in that regard.

[The following information was received for the record:]

ACCESS TO NATO

The Vander Schaaf Review study teams were not allowed access to the NATO commands under the control of the Supreme Allied Commander, Europe (SACEUR) for two reasons. First, they had not been tasked by the Secretary of Defense to review these commands. Second, because SACEUR is part of an international organization, the Vander Schaaf study team did not have the authority to review that organization.

SACEUR is an International Military Headquarters established pursuant to multilateral agreement under the North Atlantic Treaty. Under Articles X and XI of the Military Headquarters Protocol of 1952 ("Paris Protocol"), SACEUR possesses "juridical personality", which includes having "the capacity to conclude contracts and to acquire and dispose of property" and to "engage in legal proceedings as claimant or defendant." Its other rights, responsibilities and obligations derive either from (1) the Paris Protocol, or (2) the laws of the receiving State, Belgium. United States laws do not affect the operation in Belgium of this headquarters. Accordingly, absent an appropriate invitation, the United States Government lacks lawful authority to insist upon access of its officials to SACEUR premises. The lack of authority is not remedied by virtue of USG assignment of its military personnel to SACEUR command or SACEUR's employment of U.S. civilians. Such personnel, once assigned or employed, fall under the jurisdiction and control of SACEUR.

Mr. HUTTO. Thank you, Mr. Tanner.

Mr. TANNER. That was precisely my question, Mr. Chairman. You went right to the heart of it. I do not understand all I need to about that, if that is the situation.

Mr. HUTTO. Maybe we will get that clarification.

Mr. TANNER. Thank you.

Mr. HUTTO. Did you conclude your questions?

Mr. TANNER. Yes.

Mr. HUTTO. OK. Thank you very much.

Mr. Lancaster.

Mr. LANCASTER. General Butler, I would like to agree with Mr. Ray on certainly the tone and delivery of your remarks. I came in, of course, in the middle, and I thought you were mad as a wet hen at somebody.

I really have never seen any witness in the 2 years that I have been here deliver a statement in quite the tone that was very personal, I thought, and very negative about the statement of Mr. Vander Schaaf. I wonder if that reflects the feeling in the JCS about the charter that he was given.

I assume from your tone and from your attitude that, as Mr. Tanner has said, the status quo should prevail and that you did not want anybody taking a look at the structure of the military.

Is that what I am to read into your statement and the tone of your statement?

General **Butler**. Would you permit the witness a moment of remorse, sir? I will speak very candidly, if I could.

I am not an experienced witness in the Congress, Mr. Lancaster. I am sure you observed something of that today.

As I sit reflecting what was obviously the impact of my comments and the way that I spoke on this to the committee, I made a serious misjudgment with respect to how to present my remarks, and I would like to take just a second and clarify that, if I could.

I said at the outset that I felt a special responsibility because I was speaking for the JCS and for the CINCs, and it appears that in the process of trying to carry that weight of responsibility, I apparently had an inflection of tone and spoke in a manner that was too forcible or conveyed an impression that I clearly did not intend to convey, and I apologize to Mr. Ray on that subject and to you as well.

I do not know Mr. Vander Schaaf personally. I have spent a great deal of time with his product over the last several months. He has made an enormous effort in what was clearly a short period of time, which is to his credit that he was able to cover such a scope of subject, to lay out avenues, prospects for savings.

What I was trying to convey, Mr. Lancaster, was that in making judgments as between the numerous options that he presented, there are two kinds, I think, to be made. The kinds that the Secretary ultimately chose were to look at areas like base operations management and overlapping policy organizations, and he directed that some 3,000 savings be made in those areas.

Where the reply of the CINCs and the JCS was persuasive to the Secretary were in those areas where they felt that the recommendations went beyond questions of day-to-day efficiency, to the application policy decisions of the making of that policy getting more directly into those areas which impacted upon their ability to do their wartime tasks.

In that regard, these recommendations cited just a handful of key areas, but there were a number of manpower spaces that were at stake with regard to that handful of key topics. Clearly, the most important one which Mr. Vander Schaaf dwelled on for some time, and I tried to as well, was the question of the proper role and relationship and authorities of the service components of Unified and Specified Commands, as opposed to the CINCs' own staffs.

If I could revisit my remarks and my tone, I would say it simply this way: the CINCs who have large peacetime responsibilities, but who principally must be prepared to transition to war, and then to employ forces in war worry most about that transition capability and, therefore, the CINCs have two sets of responsibilities. One, they look to the peacetime side and on the other, they look to wartime, and CINCTRANS is a real case in point.

He has three large component organizations. He does a myriad of peacetime tasks. They have to be done effectively and efficiently. That has some relation to what they do in wartime, but when war comes, those same organizations must perform and surge and move to a much higher tempo and operate according to a different set of imperatives. We exercise them to do that, and that is where the concern of the CINCs comes with respect to the prospect of losing those components, Mr. Lancaster.

If they lost those components in peacetime, then they would lose the same perspective that they need to bring in wartime, that is, to ensure that separate organizations can work together separately but as well as together in order to move hundreds of thousands of troops and millions of tons to whatever theater war might be underway.

They have to focus daily on the preparation for those wartime responsibilities, and that focus and their CINC hat for wartime consumes an enormous part of their staff. They depend upon their components to do the peacetime efforts to keep things moving on a daily basis, all the traffic that moves through the system. Their wartime staffs that work directly for them as CINCs can see to the daily business of ensuring that they can transition quickly to war and in the event of war, that they can do what they are required to do, and that is to move people and things quickly and efficiently.

The CINCs felt if they lose those components, that they would lose that capacity to have one staff to focus on peacetime operations and another one to focus on wartime.

Mr. **Lancaster**. I personally believe that the charter which Mr. Vander Schaaf was given is a legitimate charter, and, in fact, it is something that will have to be focused on. I am not prepared to judge whether or not the end result that he has produced is the correct way, but there is no question that as we face declining defense budgets—they are going to decline—what we have to do is to determine how we can use the resources we have more efficiently and how we can reduce some of those personnel resources.

I think the proper way to do that is by the reduction of redundancies and layers of bureaucracy and simply a reduction in various bureaucracies in the Unified and Specified Commands.

Do you concur that if we are going to have declining resources, that that is an appropriate place to find those reductions?

General **Butler**. What I would recommend, sir, is that we allow the CINC to have the principal voice in making judgments about when those reductions begin to impact on his ability to do not only his peacetime but his wartime planning tasks.

Mr. **Lancaster**. This is just pure arbitrary, but if Congress mandated that 3,000 additional positions be identified within the bureaucracy, not in the fighting forces, but in the bureaucracy, in the Unified and Specified Command, do you think that the Joint Chiefs and the CINCs would identify the same positions that Mr. Vander Schaaf did, or do you think they would be completely different positions?

General **Butler**. I think it would be some combination of that, sir, as was reflected in the outcome of their reply, in which better than 500 spaces——

Mr. **Lancaster**. But let us say it is 3,000 spaces, not 500, that you have to find. Would it be the same 3,000 that he identified, or do you think it would be a different 3,000?

Mr. **Berteau**. If I could expand upon that a little bit, I think there is no question but that some of them would be different. How many, I do not know.

Mr. Tanner's comment that, in fact, the Secretary's decisions on these represent nothing more than the status quo, I think, has to be seen in a different kind of a context.

The Secretary basically approved the reduction of 41 percent of those billets that Mr. Vander Schaaf proposed for reduction, and this was done less than 1 year after the report was surfaced. I think if you polled the professional staff here, you would discover that that kind of a percentage reduction based upon a review of this kind in the first year of its review is, while it may not be unprecedented, highly unusual within the Department of Defense.

In addition, I would like to stress that there is another way in which the status quo is not still extended. We have a much expanded capability and a much expanded charter within both the Joint Staff and OSD to execute continuous reviews of this type and to identify those places where, in fact, reductions should be taken. We take that charter very seriously, and we have been working very hard to build up that capability and have had significant support from within the leadership of the Department to do that.

I think in that way, also, we are, in fact, not keeping to the status quo. I have been through the reduction of the 10 percent of headquarters mandated by Goldwater-Nichols. We did not have at that time in OSD the capability to clearly and quickly assess what all the options were and to take all the reductions that might be rank order all headquarters jobs and take the bottom 10 percent off.

We are developing that, and we have a better ability to do that. I still do not think that the mandated particular percentage reductions or particular number is the right way to go, because what you really have to do is work back from what can you not do.

In that way, Mr. Vander Schaaf's report has a philosophy and approach that is legitimate. It says let us not focus on a number or target; let us focus on specific functions and talk about what functions are we going to quit doing, which people are going to quit doing their jobs as a result of this, and that is a very legitimate way to go. We are working very hard to be able to do that on a regular institutionalized basis.

Mr. **Lancaster**. One last question, Mr. Chairman, related to——

Mr. **Hutto**. Make it brief, if you will.

Mr. **Lancaster**. It will be. Related to General Galvin's lack of cooperation in his capacity as SACEUR.

Is there anybody who could order him to participate or cooperate in a review of structure? Could NATO itself?

Mr. **Berteau**. We will answer that in concert with the authority of the SECDEF, and I do not know all the legal details of what is associated with that.

Mr. **Lancaster**. So, what you are saying is there is a possibility that he is completely omnipotent in this particular area and that nobody could order a review of structure?

Mr. **Berteau**. I would find that personally hard to believe, but I do not know.

Mr. **Hutto**. Thank you, Mr. Lancaster.

General Butler, in looking at the commission of Mr. Vander Schaaf, and Mr. Ray read this awhile ago it clearly includes component commands.

Are you telling us that there is not duplication with the component commands and the unified commands?

General BUTLER. In the judgment of the CINCs, sir, who have those component commands working for them, their indication was that with respect to the roles that those components play in seeing to the organizing and the training and the equipping and the administering and sustaining of the forces in peacetime, they see those roles as a central part, because that relieves the CINCs of having to focus their own attention on that and their peacetime attention properly is focused on the exercising and the planning that allows them to do their wartime tasks.

Now, with respect to the prospect of overlapping functions, there are a number of spaces which are going to be reallocated from the components into combatant, unfilled combatant requirements as a result of Mr. Vander Schaaf's study, on the order of 2,400 spaces, and, so, clearly, in the SECDEF Directive, there were a number of spaces which can be reallocated, but I would also have to say, because the numbers speak for themselves, that in their reply, the CINCs did indicate that they saw some 500 spaces that they thought could be safely reallocated, but they, of course, accepted the Secretary's judgment that there would ultimately be about 2,500 reallocations, and they will find ways to do that.

Mr. HUTTO. Mr. Archie Barrett of our HASC staff had a great deal to do with the Goldwater-Nichols reorganization. Mr. Barrett has a few questions he would like to ask.

Archie.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. Vander Schaaf testified that most of his recommendations were for cuts in service components rather than in joint staffs or units.

Your 3,000 cuts, do they come mostly from the service components or from joint units?

Mr. BERTEAU. Mr. Vander Schaaf's original proposal, 7,309, took somewhere between 1,000 and 1,500 out of the joint arena. Some of his recommendations were not specific enough to be able to determine the distribution either in terms of military, civilian, officers, enlisted, or even what service or command they would actually come from. About one-tenth of his recommendations were insufficiently specific to determine that.

As part of our response to you on how the billets tie back to those specific reductions, we will also provide a breakdown in terms of the 3,000 that were reduced, the 2,990 that were reduced, which ones were joint duty billets within that category there, but at the moment, I do not have a breakdown of that.

Mr. BARRETT. So, are you providing it for us?

Mr. BERTEAU. I will have to provide that for the record, yes, sir.

[Answered in insert provided for earlier in the record:]

Mr. BARRETT. I see.

Mr. BERTEAU. My guess is it is probably roughly proportionately similar, maybe one-sixth or one-seventh of the total when we come down to it, but that is only an estimate on my part.

Mr. **Barrett**. Were any organizations, entire commands, eliminated in Mr. Vander Schaaf's review; and if so, which ones?

Mr. **Berteau**. The U.S. Forces Caribbean Command was, in fact, completely disestablished and going away. There were some billets transferred back from that command to LANTCOM, to execute those functions that, in fact, still need to be done.

Mr. **Barrett**. Any others?

General **Butler**. Naval Activities Caribbean and also two air divisions of Strategic Air Command.

Mr. **Hutto**. General, could you pull the mike up a little closer to you?

Mr. **Barrett**. Could you provide us the commands that he recommended be eliminated and those that were and were not?

Mr. **Berteau**. Sure.

[The following information was received for the record:]

The following lists identify the commands and organizations which the Vander Schaaf Report recommended for elimination or closure and the commands and organizations which were actually eliminated or closed as a result of implementing specific report recommendations.

VANDER SCHAAF REPORT RECOMMENDATION

U.S. Forces Caribbean.
Caribbean Joint Intelligence Centers.
Joint Air Reconnaissance Center.
Atlantic Training Command.
Naval Activities Caribbean.
Headquarters, U.S. Navy, Europe.
7055th Operations Squadron.
Consolidate U.S. Delegation & U.S. Mission to NATO.
Western Army Command.
Logistics Command Pacific.
Training Command Pacific.
Army IX Corps.
U.S. Naval Forces Japan.
SAC Air Divisions—Continental United States.
SAC Pacific Operational Liaison.

COMMANDS AND ORGANIZATIONS ACTUALLY CLOSED

U.S. Forces Caribbean.
7055th Operations Squadron.
7000 Special Activity Squadron.
AF Space Flight Control Center.
326 Air Division.
Southern Air Division.
Tactical Support Wing One.
COM NAV LOG PAC.

Mr. **Barrett**. With respect to General Butler's statement, General Butler, you indicated you were speaking for the Joint Chiefs of Staff and the Unified and Specified Commanders.

I think we need to clarify. Was it—do you—speaking for the JCS, was it improper for the Secretary of Defense to ask the Inspector General of the Department of Defense to make this study?

General **Butler**. No, not at all.

Mr. **Barrett**. Was it improper for Mr. Vander Schaaf to make the study and the recommendations that he did?

General **Butler**. Clearly not.

Mr. **Barrett**. Was Mr. Vander Schaaf the first to raise many of the issues that you talked about in your statement? For example, command structure in Alaska, the boundary between the central command and the—between the southern command and the Atlantic command or the central command and the Pacific command in the Indian Ocean?

General BUTLER. These are perennial questions, Mr. Barrett. They come up time and again.

Mr. BARRETT. That is correct, they are perennial questions, are they not? So, Mr. Vander Schaaf did not bring these questions up. Have they been debated within the Joint Staff itself?

General BUTLER. Continuously.

Mr. BARRETT. So, it could not be your position then that it was improper for him to—or is it your position that it was improper for him to raise these issues and make a recommendation to the Secretary of Defense as an advisor to the Secretary on these matters?

General BUTLER. No, Mr. Barrett, that was not the point, that it was somehow improper.

Mr. BERTEAU. I think it is also worth noting, Mr. Barrett, that, in fact, the Secretary and the Chairman agreed upon the decision to pursue the study in advance of selecting the individual who would head up the effort. Derek was selected not because of his position as Deputy Inspector General, but because of the fact they thought he was the right person to go do the job.

Mr. BARRETT. Is there an example of a consolidated unified or specified—a unified command like Mr. Vander Schaaf is recommending, without components?

Mr. BERTEAU. That meets his model? I am certainly not aware of any, even at the sub-unified level.

Mr. BARRETT. So, it has never been tried, a U.S. military structure, or is not tried today?

Mr. BERTEAU. I do not know my history well enough, but I am not aware of any.

Mr. BARRETT. Is it an issue, though? Has it been discussed before as a possible alternative command arrangement?

Mr. BERTEAU. It clearly was discussed in the very recent decision on how to implement the statutory requirements with respect to special operations command, in fact, giving CINCSOC his authority over the budget.

Mr. BARRETT. So, would it be your position that it was a legitimate thing for the Secretary of Defense and his advisors and the Congress to consider the possible alternative command arrangements that could save manpower and resources?

General BUTLER. Could I just speak to that for a second?

I fully understand the drift of your question, Mr. Barrett, and I am sure I deserve that. Let me say again that it is not that these questions fall only in the province of the military to consider. They have been considered for years.

The point that I wanted to make was that in this consideration by Mr. Vander Schaaf, he made personally a number of proposals with regard to AOR boundaries, components, and other things. The CINCs once again made their feelings known on these subjects in reply to Mr. Vander Schaaf's review as they were asked to do.

When the Secretary of Defense was briefed on their reply and compared their rationale, their logic, to that provided by Mr.

Vander Schaaf in his review, the SECDEF came down on those matters on the side of the CINCs.

On the other questions having to do with organizational efficiencies and base operations management, he took Mr. Vander Schaaf's side and he directed that some 3,000 spaces be reallocated out of those positions. Fortunately, as Mr. Berteau has said, he accepted the request of the JCS that they be reallocated into combat requirements that had previously been unfilled.

Mr. **Barrett**. One last question now. You testified that the Transportation Command CINC opposed consolidation of his headquarters. Mr. Berteau, on the other hand, testified that it might be a good idea and the Defense Department at one point was about to go ahead with not exactly the same organization, but one that was comparable in the transportation area.

So, now, we have two different conflicting views in the Department of Defense from people at the same witness table.

Mr. **Berteau**. The example that I used was, in fact, not as broad as the TRANSCOM because it did not include the Military Airlift Command. It included only the Military Sealift Command and Military Traffic Management Command.

The charter of TRANSCOM, which flowed out of the Packard Commission recommendation and having worked on that, I am very familiar with that, was, in fact, directed at a different objective, which was the wartime lift capability. The wartime lift capability was not the driving force behind the original 1982 proposal to consolidate MSC and MTMC.

Rather, that was driven by a peacetime operating efficiency question. Mr. Vander Schaaf's review was, in fact, a combination of the two, and the position, as far as I am concerned, is not an inconsistency.

What I used—the reason I brought the example up, of course—is to illustrate that it is not a black and white issue. Whether or not there are, in fact, opportunities for that consolidation will continue to be explored. As you have pointed out, these are perennial issues. We look at them again and again.

Something that may not make sense 1 year may make sense in a later year. Something that makes sense in 1 year may not make sense in a later year. It certainly is a dynamic process, and we do not intend to walk away from that.

Mr. **Barrett**. Thank you. I think we have made the point that these are open issues that need to be considered by civilian advisors as well as the military and that all advice should be considered in making decisions on these.

Thank you, sir.

Mr. **Hutto**. Thank you, Mr. Barrett.

Thank you very much, Secretary Berteau, and General Butler. We appreciate very much your testimony, and we look forward to working with you on this and many other issues.

Mr. **Berteau**. Thank you, sir, and with your permission, there were a number of small detail questions that came up during the question of Mr. Vander Schaaf, many of which I would appreciate the opportunity to respond for the record as well.

Mr. Hutto. If you would respond for the record, I think that perhaps we would have more questions for you to answer for the record.

Mr. Berteau. I am sure you would.

Mr. Hutto. OK.

Mr. Berteau. I have enjoyed working with this so far, and I look forward to the opportunity to continue to do so.

[The following information was received for the record:]

Question: The Report points out that the actual number of personnel supporting the headquarters of the Unified and Specified Commands was considerably higher than what DoD normally reports. The Report found almost 60,000 personnel in these headquarters slots, almost twice what DoD has been reporting to Congress. What is the Department doing to get an accurate accounting for the Congress and are you making changes to improve the definition of headquarters personnel?

Mr. Berteau: The Management Headquarters manpower data reported to the Congress is consistent with the policies and objectives of the DoD Management Headquarters Program contained in DoD Directive 5100.73. That program is designed to reflect the number of people engaged in managing the Department of Defense and its major components. It was never intended to account for personnel assigned to units that provide facilities, services, and other support to operational activities.

The Vander Schaaf Report includes in its headquarters count personnel assigned to ancillary organizational elements of the Unified and Specified Commands that are performing functions not included under the Management Headquarters definition contained in DoD Directive 5100.73.

The current Management Headquarters definition, with its focus on management activities, has served its purpose and provided useful data to both Departmental leadership and the Congress during the fifteen years that the Management Headquarters program has been in existence. Obviously, it could be expanded to include any number of people we desire. However, the current criteria allows us to account for those civilian and military personnel who constitute the basic cadre that develops policies, manages resources, and oversees programs in the Department of Defense. Revision of the definition would deviate from this purpose and detract from its utility.

Question: The Report states that it "was virtually impossible to understand the most significant duties performed by individuals...." and "briefings...indicated a pervasive confusion as to who does what, to what extent and when." What actions does the Department plan to take to correct these problems?

Mr. Berteau: The Department considers this particular finding to be unsubstantiated. The functions and responsibilities assigned to the Unified and Specified Commands, and their components, are clearly delineated in appropriate directives, mission statements, regulations, and other issuances. Each civilian and military individual assigned to these activities has precise duties to be carried out. To the extent that instances of confusion exist, cognizant commanders are charged with making realignments and adjustments, and they are constantly doing so as part of their ongoing management responsibilities. Accordingly, no across the board corrective action is considered necessary.

Question: The Report recommends a zero based approach to headquarters manning. Does the Department plan to do this and, if so, when?

Mr. Berteau: The Department of Defense thoroughly reviews all of its manpower requirements during each budget cycle. This process starts with the Defense Guidance, which establishes the Department's resourcing plans; follows through the Program Objective Memorandum (POM) cycle, which formulates the programs necessary to carry out the approved plans; and culminates with the Budget Review which applies resources (spaces and dollars) to the approved programs. Each budget cycle considers all DoD resources from a requirements viewpoint. DoD Headquarters organizations are subjected to the same intense scrutiny as all other activities. The Vander Schaaf review of the Unified and Specified Command Headquarters organizations was directed by the Secretary of Defense as a one time review. The Department maintains that the normal resource requirements determination process is an effective and responsive method of identifying resource requirements, and that one time studies and reviews should remain the exception to normal resource review processes.

Question: This committee has felt that there were problems with the management of headquarters support contracts. At times it appears that all some headquarters staff does is manage consultant contracts. How does the Department plan to address this issue?

Mr. Berteau: DoD Headquarters organizations are defined in DoD Directive 5100.73 - Department of Defense Management Headquarters and Headquarters Support Activities. These Headquarters activities are involved in the oversight, direction, and control of subordinate organizations or units through developing and implementing policy, allocating and distributing resources, and conducting and implementing middle-and long-range planning, programming and budgeting functions. DoD Management Headquarters Support Activities provide professional, technical, administrative, and logistic support to Management Headquarters activities.

One of the duties attendant with Management Headquarters operations is the management of headquarters support contracts. Some of these activities are responsible for the successful management and completion of support contracts, but it is not true that this contract support management function is their sole reason for being. Management Headquarters Support Activities provide the necessary organizational and operational support necessary for Management Headquarters Activities to concentrate on their policy formulation and execution missions. This system has been the subject of constant and detailed scrutiny by the Congress for almost 20 years, and to date there have been no substantive changes recommended.

Question: The Report recommends that this type of review be conducted of the Service Headquarters, Secretariats, Defense Agency Headquarters, and Reserve Forces Management. The Committee would wholeheartedly endorse such efforts, and wonders what DoD is planning to do along these lines.

Mr. Berteau: The Defense Department has not yet completed implementation of all of the reorganization requirements of the Goldwater-Nichols DoD Reorganization Act of 1986 (P.L. 99-433). This sweeping legislation mandated radical changes in the way that the Department of Defense is organized and how it operates. All DoD components, including the Service Headquarters, the Service Secretariats, the Defense Agency Headquarters, and Reserve Forces Management, were affected by this legislation. It is neither wise nor prudent to subject these still evolving organizations to further changes at this time.

The Vander Schaaf review of Unified and Specified Command Headquarters organizations was a one time review directed by the Secretary of Defense. The Department of Defense plans no additional reviews of this nature at the present time.

Question: How can the Department justify having duplicate transportation elements at port and terminal facilities in the United States and around the world? Why shouldn't they be consolidated?

Mr. Berteau: The Defense Department is continually reviewing opportunities and alternatives to improve its operational and support efforts. Specific organizations and organizational relationships have been established and refined to meet mission requirements and to ensure the most responsive, efficient National Defense posture.

The Department's unified U.S. Transportation Command was established to enhance readiness and mobility planning, and this should continue to be its mission focus. After a careful review of the Vander Schaaf Report, the Secretary of Defense determined that there could be no further consolidation of transportation elements at this time without a loss of readiness.

This determination does not preclude consideration of consolidation and realignment at some time in the future, when mission and workload requirements may change.

Question: We understand that the study team encountered access problems with the NATO commands that were not resolved so the review did not include those commands. What was the problem? Why was the special study team, commissioned by the Secretary of Defense, himself, not permitted to review U.S. manpower in NATO? How much U.S. manpower, both military and civilian, is currently assigned to NATO commands?

Mr. Berteau: The Vander Schaaf Review study teams were not allowed access to the NATO commands under the control of the Supreme Allied Commander, Europe

(SACEUR) for two reasons. First, they had not been tasked by the Secretary of Defense to review these commands. Second, because SACEUR is part of an international organization, the Vander Schaaf study team did not have the authority to review that organization.

SACEUR is an International Military Headquarters established pursuant to multilateral agreement under the North Atlantic Treaty. Under Articles X and XI of the Military Headquarters Protocol of 1952 ("Paris Protocol), SACEUR possesses "juridical personality", which includes having "the capacity to conclude contracts and to acquire and dispose of property" and to "engage in legal proceedings as claimant or defendant." Its other rights, responsibilities and obligations derive either from (1) the Paris Protocol, or (2) the laws of the receiving State, Belgium. United States laws do not affect the operation in Belgium of this headquarters. Accordingly, absent an appropriate invitation, the Unites States Government lacks lawful authority to insist upon access of its officials to SACEUR premises. The lack of authority is not remedied by virtue of USG assignment of its military personnel to SACEUR command or SACEUR's employment of U.S. civilians. Such personnel, once assigned or employed, fall under the jurisdiction and control of SACEUR.

Question 6. In the discussion of the unified commanders' role in resource allocation, the report lists three options or proposals on how to allocate resources to the three supporting unified commands. One option would be to set up a separate O&M account for the three commands similar to a Defense Agency account. This proposal has a lot of appeal for funding these commands and I would like your views on its merits or problems.

Gen. Butler: This recommendation was rejected by each of the three CINCs who would presumably receive its benefit, recognizing that it would simply change the venue of competition and prioritization of the O&M programs in these unified commands. Since their missions are quite unrelated, these CINCs would now have to produce O&M requests which OSD or Congress would then have to integrate in constructing the DOD budget submittal. Worse, as underscored by CINCTRANS, removing the Services' historically rigorous scrub from the process could well lead to a less rigorous statement of requirements, thus weakening the present bases for apportioning shrinking resources among competing claimants.

Question 7: The need to reduce the layering of bureaucracy at Transportation Command is one obvious example of streamlining that makes sense. If TRANSCOM and its three components of MAC, MTMC, and MSC are not closely aligned in peacetime, why does the department think that they can be smoothly aligned in wartime?

Gen. Butler: The components of TRANSCOM are sufficiently "aligned" in peacetime to do their peacetime role effectively, as they have done for years. The principal focus of TRANSCOM is precisely on the wartime alignment. It was created to fill a void in the overall DOD transportation management. The mission and organization of the command were the result of years of study and debate over a demonstrated failure efficiently to control a major strategic deployment. This was not a failure or weakness of the individual components, but a need to integrate their capability for wartime. Thus, USTRANSCOM's primary focus is on the improvement and integration of air, land, and sea transportation management systems, wartime planning and execution systems, and advocacy for adequate air, land, and sealift capability to meet national security objectives. The relatively small USTRANSCOM staff (371 authorized personnel) is fully tasked in the accomplishment of that mission, and is able to devote full time and attention to these wartime roles because they are not diverted by the routine but complex peacetime functions of the components. Equally important, the component commands are essential to the decentralized execution of air, land, and sealift missions, as is practiced during peacetime through JCS Joint exercises, just as it would be during wartime. By contrast, the DOD IG proposed structure is highly centralized, and would take away the flexibility of the CINC to align in peacetime as he must fight in wartime.

Question 10: After reading the report, I am confused about who is actually responsible for the defense of the continental United States. Can you clarify this for me?

Gen. Butler: There is no one single command responsible for the overall defense of the continental US. Planning for and execution of land defense is the responsibility of FORSCOM; air defense is the responsibility of CINCNORAD; and sea defense is the responsibility of LANTCOM and PACOM.

Question 11: The report emphasized that the Forces Command should be disestablished as a specified command and, instead, revert back to strictly an Army command. It also pointed out that if Forces Command is appropriately a specified command, then the Tactical Air Command should also be a specified command. What are your views on these points?

Gen. Butler: FORSCOM should remain a specified command in view of the importance of its assigned missions. The DOD IG Review arguments to disestablish FORSCOM as a specified command do not do justice to these missions, nor to the rationale for the JCS decision to make FORSCOM a specified command. Interestingly, the Review did acknowledge the importance of missions now assigned to FORSCOM when they were assigned to its predecessor REDCOM, i.e., securing the borders of the United States and commanding CONUS based conventional forces, but declares that these missions are not sufficiently important to establish FORSCOM as a specified command. The JCS disagree. The missions of land defense of CONUS; military support to civil defense; CANADA/US and Alaska defense planning; joint training; and, provision of conventional ground forces to overseas commands are major tasks, appropriate to a specified command.

In disestablishing REDCOM, the JCS were able to provide the nucleus of the Congressionally-directed US Special Operations Command, assure the effective assumption by FORSCOM of REDCOM missions, and make other changes in the unified command structure with minimal cost. FORSCOM's establishment as a specified command was accomplished at the expense of only 58 spaces above the headquarter's Major Army Command strength.

With respect to the role and status of Tactical Air Command, the JCS are persuaded that there is not a compelling reason to transform TAC to a specified command. The training and deployment of tactical air forces, as directed by the National Command Authority, is quite a different matter than that of land forces. Further, TAC would have no counterpart to FORSCOM's broad missions as recounted above. The command functions very well in its current configuration, an assessment echoed by all the combatant CINCs to whom TAC resources are forward assigned. To make TAC a specified command would be change for change's sake, not to fix a substantive organizational problem.

Question 12: Why is the Navy component command for the US European Command located in London when the Sixth Fleet and other Navy units are in the Naples area?

Gen. Butler: The question of the optimum location for the US Naval Forces Europe Headquarters has been reviewed on a number of occasions. The primary benefits of the current London location are the use of well established facilities, close contact with the Royal Navy and a very positive host nation environment. Relocation to Naples would afford better access to the Sixth Fleet although the Sixth Fleet operates at sea and is not routinely present in Naples. Of note, the present geographic separation between the headquarters and the Sixth Fleet is less than that between CINCLANTFLT and forward deployed naval forces in the North Atlantic or between CINCPACFLT and forces in the Western Pacific and Indian Oceans. Other considerations favoring retention of the Headquarters in London include the significant relocation costs, limited availability of facilities in the Naples area and the potential diplomatic repercussions in the United Kingdom and Italy. For these reasons, relocation of the Headquarters is not considered advisable at this time. The tradeoffs will continue to be reviewed periodically, however, an eventual relocation is conceivable.

Question 13: We thought that the military departments trained and equipped the forces. Why does the US Atlantic Command have a training command and why does the US Pacific Command have both a training command and a logistics component? Why shouldn't they be disestablished?

Gen. Butler: Training and equipping forces are in fact functions of the military departments. The Commanders in Chief of the US Atlantic and Pacific Fleets, in addition to serving as the naval component commanders of the Atlantic and Pacific Commands, are responsible to the Chief of Naval Operations for these Service functions. Within the Atlantic and Pacific Fleets, the two fleet training commands (TRALANT/TRAPAC) and the Naval Logistics Command, US Pacific Fleet (LOGPAC) play a key role in training and equipping naval forces.

TRALANT and TRAPAC, located in the major homeports of Norfolk and San Diego, focus on training directly related to fleet readiness. They also provide the primary interface between the Fleet CINC's and the Chief of Naval Education and Training (CNET). Disestablishment of the fleet training commands would serve to isolate fleet training requirements from CNET's training efforts. Further, no overall manpower savings would be achieved because other commands would have to assume the TRALANT/TRAPAC training functions. LOGPAC oversees the extensive shore-based logistics establishment which supports the Pacific Fleet. The size of this establishment, and thus the magnitude of the support and oversight required, is driven by geographic distances from CONUS and the large forward deployed force structure in the Western Pacific and Indian Oceans. Disestablishment of LOGPAC would necessitate transfer of functions to other commands, primarily CINCPACFLT. While alternative command arrangements are possible and are under review, few billet savings would occur from LOGPAC's disestablishment.

Question 14: Why are you convinced that the component commands should not be disestablished for the supporting unified commands?

Gen. Butler: The CINCs, and the JCS are unanimous in strongly rejecting the proposal. Indeed, it runs directly contrary to the combatant commanders' authority provided in the DOD Reorganization Act, which states that a CINC has the inherent function of "organizing commands and forces . . . as he considers necessary to carry out mission assigned to the command."

USCINCTRANS provided especially cogent rebuttal arguments which capture the fundamental concerns voiced by virtually every respondent regarding the issue of components. He noted first that, "The Services are charged by law and the JCS to train, equip, support, and administer forces. To effect this recommendation would violate that basic doctrine and require changes to Title 10, US Code. USTRANSCOM is charged with a go to war mission and the addition of this peacetime support role will divert the command from its primary task. Additionally, divestiture of Service-unique missions of the components will likely provide no manpower savings and in many cases may require more to maintain the same level of service. Furthermore, each component interfaces in a daily basis with their respective Service staffs in matters pertaining to fiscal and business negotiating policy, law, programming, contracting, personnel policy, and procurement. These channels are vital to the component in performing their mission in both peace and war and are simply not available from any other sources within the DOD organization. The recommendation to create a unique unified transportation command, for example, without normal Service components fails to recognize the importance of these relationships of appreciate the scope of changes necessary to create this specialized support within either the unified command headquarters or the SECDEF staff organization."

TRANSCOM went on to say that, "The addition of the component commands peacetime responsibilities to the USTRANSCOM charter would create a great potential to divert the attention of the unified commander from his primary war-fighting mission. Involving USTRANSCOM in peacetime cargo movement, at this time, would mire the staff in the myriad day-to-day management problems associated with multiple mode transportation assets when we are trying to build our ability to mobilize in wartime."

Regarding resource allocation, he says "Removal of the Services and their departments from the resource allocation process would significantly complicate programming and budgeting. The healthy scrutiny and priority review afforded programs by the Services and departments during the PPBS process would be lost. This might not be as important a factor if we had sufficient resources for our needs--but we don't. In addition, there is a potential loss of Service advocacy due to less direct involvement in key transportation and procurement actions."

USCINCSOC states, "This should not be implemented. . . . Recommendation would require incorporation of administrative and managerial elements of Service component commands. While the proposal might result in personnel reductions for Services, it is unacceptable for the following reasons:

(a) The principal function of unified CINCs is to command force employment in execution of OPLANs developed through close coordination with Service components. USCINCSOC needs linkage with the Services through Service component commands to support functional requirements.

(b) Unified commands are organized and staffed for integration of land, sea, and air forces for employment. They are not staffed to accomplish Service component functions--basic training, planning, administration, and logistics, or to provide oversight of component management and base support organizations.

(c) Elimination of component commands would hinder close working relationships, coordination, and support of all Services. Integration of the Service component commands into USSOCOM would end a Service element's capability to voice specific concerns from a land, sea, and air perspective on resource needs to their parent Services. It is essential that our components work issues with their respective Services. Elimination of Service component headquarters would stretch span of control. Moving responsibility for unique Service administrative and managerial functions to USSOCOM staff would impede Services' legal responsibility for training, equipping, and sustaining."

USCINCSPACE echoes that, "The Naval Space Command component provides a cadre of personnel who represent USCINCSPACE priorities and have an established role in the Navy POM process. It is my most effective input to Navy POM deliberations."

Finally, the Secretary of Defense, in his 26 September 1988 Memorandum to the Chairman, Joint Chiefs of Staff recognized the importance of the component structure to the unified commands. He said, "The senior military leadership make a compelling case on a number of counts, particularly with regard to preserving the Service components of the Joint commands. I am persuaded that execution of the statutory Service responsibility to organize, train, and equip forces is an appropriate role for the component commanders, thereby freeing the CINCs to focus on their assigned wartime tasks."

Mr. HUTTO. Thank you.

The subcommittee stands adjourned until 9:30 tomorrow morning.

[Whereupon, at 5 p.m., the subcommittee adjourned, to reconvene tomorrow morning, Wednesday, March 1, 1989, at 9:30 a.m.]

DEFENSE PERSONNEL SUPPORT CENTER

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Wednesday, March 1, 1989.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2216, Rayburn House Office Building, Hon. Earl Hutto presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will come to order.

Each year the Defense Personnel Support Center in Philadelphia purchases nearly $1.2 billion worth of textiles and clothing in order to outfit and equip our military personnel with everything from socks to sleeping bags. It is a tall order to meet this requirement and requires a complex system of thousands of transactions with hundreds of companies each year. This system has been jolted by one of the most pervasive cases of procurement fraud to hit the Pentagon in recent years.

The corruption was widespread and involved conspiracy within the agency and outward to industry dating back to the early 1960s. Top civilians, consultants, and manufacturers participated in the schemes to rip off the American taxpayer and the military personnel who are the end users of these products.

The corruption was so entrenched that it took some 20 years to uncover and 5 years of investigation to unravel. Years of wiretap, videotapes, informers, and audits produced an avalanche of evidence that uncovered a corrupt and greedy system of payoffs, kickbacks, bribery, conspiracy, and racketeering.

The investigation involved thousands of hours of work by the Justice Department and the Defense Criminal Investigative Service. This investigation has resulted in suspensions, debarments, prison sentences, and millions of dollars in fines.

The damage to our military is difficult to estimate, but it is huge in terms of faulty products delivered to our forces in the field, and shortages caused by fraud and mismanagement of this sector of military acquisition.

This subcommittee is interested in learning how this situation was allowed to reach such a critical point and how it was detected. We want to be assured that necessary corrective actions have been implemented.

The subcommittee also will be addressing some other matters related to the DPSC mission, including overseas transportation for commissaries and disbarment and suspension procedures for wrongdoers.

Mr. Kasich is unable to be here today, but at this time I would like to insert his statement for the record.

PREPARED STATEMENT OF HON. JOHN KASICH, A REPRESENTATIVE FROM OHIO

Thank you Mr. Chairman.

In recent years there have been many allegations of instances of fraud, waste, and abuse in the Defense Department.

One of the most difficult of practices to discover and correct is outright fraud. I commend the aggressive efforts by all of the investigatory agencies that have brought this corruption to light and these people to justice.

However, I have serious questions about a system that could allow rampant greed and conspiracy to prosper in such a long-term and widespread manner. The American people expect honesty and integrity in Government.

I hope the system is being significantly revamped to eliminate the possibility of future clothing shortages. We want an efficient and responsive clothing acquisition program free from corruption. We are pouring large amounts of money into managing the acquisition of military textiles and clothing. We need to ensure that the resources we devote to this system deliver quality products on time.

We would not be holding this hearing if the people who committed these crimes had not been caught. This effort took a lot of cooperation from several Federal agencies, including DPSC officials. I look forward to a constructive dialog. A system overhaul is long overdue, and we will provide whatever assistance is needed to see that these changes take place.

Thank you Mr. Chairman.

We are privileged to have as our first witness this morning Mr. Edward S. G. Dennis, Jr., Assistant Attorney General, Criminal Division, Department of Justice. If you will come forward please, sir?

Until recently Mr. Dennis was the U.S. Attorney for the Eastern District of Pennsylvania. He is accompanied by Ms. Linda Dale Hoffa, one of the United States attorneys who conducted the prosecutions related to the fraud at the Defense Personnel Support Center.

We welcome both of you, and Mr. Dennis, you may proceed as you wish.

Mr. DENNIS. Thank you, Mr. Chairman. I have a prepared statement which I have submitted to the committee, and I would like to make that a part of the record.

Mr. HUTTO. Without objection, the entire statement will be admitted for the record.

Mr. HUTTO. You may summarize as you wish.

Mr. DENNIS. Thank you.

STATEMENT OF EDWARD S. G. DENNIS, JR., ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION; ACCOMPANIED BY: LINDA HOFFA, ATTORNEY

Mr. DENNIS. Mr. Chairman, my involvement with this case was as the United States Attorney for the Eastern District of Pennsylvania and Philadelphia. I think our interest in pursuing these matters was primarily stimulated by the concern expressed by the Congress and by the President over fraud, waste, and abuse, particularly in the area of defense procurement.

One of my earliest undertakings after my appointment as United States Attorney in 1983 was to visit elements of the Defense Logistic Agency in the Eastern District of Pennsylvania, and that included a visit to the offices of the DPSC. At that time we had a number of investigations going on in terms of a sister agency, the Defense Industrial Supply Center, which is also located at the same installation. These investigations and prosecutions involved discreet occurrences of bribery and misconduct between contractors and primarily civilian employees.

But during the course of these investigations, as is often the case, some of the smaller offenses gave us an opportunity to develop evidence into corruption on a widescale basis. This corruption centered around a number of individuals who were in high-level positions at the Defense Personnel Support Center.

It has been my experience that where corruption is entrenched, it is very important that the investigating agencies and prosecuting attorneys' offices be sensitive to the opportunities to break into a corrupt network, because oftentimes these offenses are not carried out in isolation. They are a part of a pattern, and in this instance we found that it was part of a pattern that went back some 25 years and involved numerous contractors and Government employees at the Defense Personnel Support Center.

At this time I want to point out, however, that during our investigation we did not uncover any misconduct by military personnel associated with the Center. These were entirely civilian employees.

The highest ranking individual who was implicated in this case was one Frank Coccia who was the highest ranking civilian employee at the Clothing and Textile Directorate. In fact he was the Director of that directorate. As you stated, Mr. Chairman, that directorate purchases on an average $1.2 billion in clothing and textiles each year. Frank Coccia, as a GS-15 earning at that time approximately $70,000 a year, had been in that position for some 10 to 15 years.

We found during the course of the investigation that not only was Mr. Coccia corrupt, but that the corruption went from him down to some of the lowest level clerical workers who were being paid bribes of $50 a month to expedite the processing of payments to particular contractors, and that the pattern of corruption was pervasive and that it was not limited to the upper echelons of the civil service there at this center.

There had been rumors for a number of years that corruption was taking place at the center, but the community of contractors and corrupt employees was close-knit. It was a relationship that had developed over a number of years and was a pattern which I think we have seen in other cases of the revolving door where high-level employees leave Government service, become consultants, and use their relationship with their former colleagues and their newfound relationship with contractors to eventually engage in corrupt activities, and to facilitate that corruption by being bag men, by handling the payment of bribes and arranging the terms for bribe payments between the contractors and the employees.

This relationship was one that was present in this case in the person of one Leo Lamer who had been a colleague of Mr. Frank Coccia's for a number of years. I believe he had reached the level of a GS-14 and had gone out into the private sector. But from our investigation we learned that his activities primarily involved being a bribe broker for Mr. Coccia and other civilian employees, and being a go-between between the contractors and these employees.

The consultants involved in this case would typically take a commission of 50 percent of the bribe that was paid, and when our investigation was concluded, we determined that approximately $970,000 in bribes were paid over the 25-year period covered by the investigation.

In fact, Mr. Coccia was approached with regard to his activities, and at that time a search warrant was executed for his home and some $191,000 was seized from his home in cash. Indeed, he apparently had the first corrupt dollar he had ever taken and had squirreled it away in his home, apparently afraid to put it into a banking account for fear of the tax consequences. He also had some $90,000 in money orders because apparently he was fearful that some proposals to actually require those holding cash to exchange it for a new form of currency, I think this was a proposal that was being discussed with regard to money laundering in the drug traffic, that this might in fact be implemented. So he was hedging that by putting his ill-gotten gains in these money orders. He also had some gold krugerands which he also kept as a part of his bribe stash.

But that gives you some indication of the amounts of money that are involved in this activity. As you have stated, this was a case that involved the techniques, investigative techniques of Title III wiretaps. In fact it was the first case in which wiretapping was used in a defense procurement fraud case.

There were some five Title IIIs in the investigation which involved three judicial districts. There were 7,000 conversations intercepted, of which 2,000 conversations revealed evidence of corruption.

There were 17 search warrants executed during this investigation. Some of these search warrants involved search warrants for mail being received by Mr. Lamer. During the course of conversations over the phone, Mr. Lamer in discussing the terms of a bribe arrangement or a corrupt arrangement with a contractor, the two would be hesitant to be very specific over the phone but they did not hesitate to send through the mails the specifics of the arrangement. So when we had evidence that a letter was going to be sent we obtained a search warrant, we were able to open the letter, make a copy of the contents, and then allow it to go through. In those letters were in great detail the terms of the corrupt arrangements.

There were 300 consentially monitored conversations where informants were wearing body wires. Hundreds of interviews, physical surveillances, photographs, both still and video, and some 400 grand jury subpoenas were issued during the course of this investigation.

Of course the fraud here involved trading on inside information, favoritism, and of course providing some of the key information that would be advantageous to a contractor was the go-between, the consultant who would get from the employee the bid information of a competitor in many cases, who would arrange for waivers of tests that had to be performed, who would expedite the process of evaluating a bid, who would arrange for waivers where tests were failed in the course of the contract being carried out, or invoking some contract option that would be favorable to the contractor.

The case resulted in 18 individuals and 7 corporations being convicted. There was $4.2 million recovered in forfeitures, fines, and civil judgments. Five of the individuals who were convicted were civilian Department of Defense employees. There were seven contractor corporations that were convicted, two consultants, and 11 military apparel executives were convicted in this case.

We also realized significant recoveries through civil actions brought by the Civil Division of the United States Attorneys Office. This program which I initiated to commit some of our resources in what we call affirmative civil litigation I think paid off in this instance in that we had attorneys who had the background and training to vigorously pursue the civil penalties arising out of the crimes which were investigated and proven during the course of the criminal case.

Not only were false claims penalties assessed and recovered, but also there was over a million dollars negotiated in claims which were waived by contractors who were caught up in these schemes. In other words, contractors who had provided services, and had an otherwise legitimate claim for the money, basically waived that claim as a part of the overall global settlement.

I think there are some significant factors to which I would attribute the success in this case, not the least of which is the dedication of Ms. Linda Hoffa who sits beside me here who worked extraordinarily hard with her colleagues, Bucky Mansway an Assistant United States Attorney in the U.S. Attorneys Office; Lee Dobkin, an Assistant U.S. Attorney in the U.S. Attorneys Office; to really pull together the threads of this case. Peter Smith, who was my first Assistant U.S. Attorney was the Assistant U.S. Attorney who originally got onto this and worked with the Defense Criminal Investigative Service and the FBI at the earliest stages and was able to really assist in steering and supporting the investigators to go from what appeared to be some relatively small cases and be able to work that into the massive and successful investigation and prosecution that eventually resulted.

Also from the FBI Joe Ford, who is an FBI agent; and Tom Bonner who is with the DCIS were the agents who worked with the AUSAs with regard to this case, and their efforts were extraordinary. Certainly the results speak for themselves.

In our Civil Division Jim Sheehan who is the Chief of the Civil Division for the U.S. Attorneys Office; and Virginia Gibson Mason, an Assistant U.S. Attorney in the Civil Division were also key members of the team that negotiated many of the civil settlements that resulted in the recoveries of millions of dollars in this case.

Also at DPSC, General Voorhees and his staff were extraordinarily helpful in assisting us in the many facets of understanding the procurement process which was essential for us putting together a successful case. In particular, Mr. Kabeisman who is the General Counsel for the Defense Logistics Agency and his Assistant Counsel Mr. Gary Quigley were instrumental and very helpful insofar as the investigation was concerned.

On a more institutional basis, I think that we certainly must thank the Congress of the United States insofar as their foresight in supporting legislation which created the Inspector General's Office for the Department of Defense and other department-level agencies, and also the creation of the Defense Criminal Investigative Service. I think without their efforts we would not have had the wherewithal, we would not have had the support, we would have not had the resources, we would have not had the expertise to be able to really go into the intricate network of a very complicated agency such as the Defense Personnel Support Center and to really have the degree of success which we did have in this case.

Also, the Fraud Section of the Criminal Division of the Department of Justice I think deserves a tremendous amount of credit in its leadership in really being a resource for U.S. Attorneys offices around the country, by encouraging them and providing them with the kind of training and the kind of expertise that we often need to really put together these cases. Their defense procurement fraud unit has pioneered successful investigations into defective pricing, bribery, labor mischarging defense procurement frauds. When I first started as an Assistant U.S. Attorney, these cases were considered to be almost impossible cases to make. They now are being made with routine frequency.

So I think we have in place the institutional resources that we need to do these cases, and it's certainly a direct result of the foresight of the Congress and the Executive Branch in providing the framework within which these cases can be pursued.

Finally, I would like to point out that in handling these cases we do not just focus on the convictions or even the civil recoveries. One of our objectives has been to assist the agency affected to the extent possible in taking corrective actions. We are not experts in this area, but we find it is critical to make available at the earliest possible time those corrupt officials and contractors who have been cooperating with the investigation, that they might be interviewed by the administrators of the agency in terms of making determinations on suspension and debarment. Also, it is critical that the agency should be given the wide access to the details uncovered in the investigation for purposes of evaluating whether preventive measures can be taken in terms of changing procedures, methods of procurement, and taking other steps that might make it more difficult for such networks of corruption to arise in the future.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT OF EDWARD S.G. DENNIS, JR.

It is a pleasure to appear before you to discuss the successful prosecutions of corruption and fraud involving the Defense Personnel Support Center ("DPSC") in Philadelphia. These cases were investigated by the Defense Criminal Investigative Service ("DCIS") and the Federal Bureau of Investigation ("FBI") together with my office when I was the United States Attorney for the Eastern District of Pennsylvania. With me is Ms. Linda Dale Hoffa, one of the Assistant United States Attorneys who conducted these prosecutions.

I will confine my testimony today to the questions posed by the Subcommittee in its letter to the Office of Legislative Affairs, Department of Justice, dated February 13, 1989.

As you are aware, DPSC is the Department of Defense facility responsible for the awarding and administration of military clothing and textile contracts for the U.S. Armed Services throughout the world. Last year, DPSC awarded contracts for clothing and textiles in excess of $1.2 billion.

Our investigation produced evidence of entrenched corruption among government employees, manufacturers, and consultants involved in the production and procurement of military apparel. The corruption extended from Frank Coccia, a GM-15 grade official earning $70,000 per year, who for 15 years was the highest working civilian employee in the Clothing and Textile Directorate ("C&T") at DPSC, to clerical employees processing payment requests. The corruption was fueled by cloth suppliers and garment manufacturers who paid as little as $50 and a much as $40,000 at a time for secret and unlawful assistance from Department of Defense employees. The corruption uncovered dated back in some instances to the 1960's.

For many years, law enforcement officials had heard rumors of corruption at DPSC but had not been able to corroborate the information to warrant prosecutions. DPSC and its clothing manufacturers were a close-knit and secretive community which had done business together for many years. This made an investigation using undercover agents difficult, if not impossible, to conduct successfully. The break for law enforcement occurred from separate investigations of two DPSC contractors, one a manufacturer of clothing items such as raincoats and parkas, and the other a producer of sleeping bags and equipage items. For the first manufacturer, the investigation concerned defective materials in sleeping bags. For the second manufacturer, the investigation concerned false claims made in the shipping of materials. Ultimately, each manufacturer offered to cooperate. Each told law enforcement officials about government employees "on the take," including Frank Coccia, who I mentioned earlier was the highest ranking civilian official at the Clothing and Textile Directorate at DCPS. The crimes for which each manufacturer was being investigated became minor in comparison with the corruption to which they were able to lead investigators.

Under DCIS and FBI supervision and surveillance, the manufacturers made separate cash payments to Coccia in exchange for his promise to exercise his influence at DPSC on different matters. This evidence, which was recorded, together with information provided by the manufacturers, was sufficient to establish probable cause to obtain court authorizations for wire taps on Coccia's home and business telephones. From these wire taps and other information received, it was learned that Coccia had illegal relationships with others, including Leo Lamer, a so-called consultant to government contractors. Court authorization was obtained to wire tap Lamer's phones. This wiretap provided evidence of a widespread network of bribery and corruption far beyond the expectations of the agents and prosecutors. Basically, it was learned that Lamer, and other so-called consultants, acted as brokers between willing buyers and sellers who traded in inside information and favoritism, and then acted to insulate the buyers and sellers from each other.

Thereafter, other wiretaps were obtained. A total of five (5) wiretaps in three (3) judicial districts over a five month period of time were used. At least 7,000 telephone conversations were intercepted, 2,000 of which were relevant to the corruption charges brought. The investigation also involved the use of 17 search warrants of the mail, residences and offices in five judicial districts, approximately 300 consensually recorded conversations, hundreds of interviews across the country, physical surveillance including still and video photography, and over 400 grand jury subpoenas, as well as other investigative techniques.

The size of the bribery uncovered in the investigation is impressive. For the most part, the bribes paid were large. The investigation revealed evidence that a total of approximately $970,000 was paid in bribes to government officials involved in military clothing and textile procurement since the 1960's. These bribes included not only cash payments, but also free vacations at expensive resorts, gold watches, clothes, securities, gold kruggerands, and assistance in buying cars and houses. One government official's home was searched pursuant to a search warrant and $191,000 in cash, $90,000 in uncashed money orders and 122 gold coins were found hidden in the attic, a brief case, a desk and the basement crawl space.

For these bribes payments, the contractors received a great deal of secret and unlawful assistance from the corrupt officials. The kinds of favors performed varied due to the nature of the procurement matters pending before the government officials. Some examples include the exercise of influence to expedite pre-award surveys, testing procedures and waivers, disclosing secret bid price information and privileged information on competitors, approving waivers for test failures, invoking contract options and approving delivery extensions.

As in the case of Frank Coccia and Leo Lamer, the majority of bribes were paid through so-called consultants acting as middlemen. These consultants received as much as 50% of the bribes for their assistance. Some bribes, however, were paid directly between the corrupt government official and the corrupt contractor.

To date, the investigation has resulted in the conviction of 18 individuals and 7 corporations and the recovery of $4.2 million in RICO forfeitures, criminal fines and civil judgments. Among the individuals convicted were five Department of Defense officials. They were convicted of racketeering, conspiracy, bribery and illegal gratuity charges. Each received a sentence of incarceration. Coccia, as the highest ranking DOD official, received a ten year term of incarceration, a fine of $50,000 and a RICO forfeiture order of $331,000.

Eleven military apparel executives and seven military apparel corporations were convicted. The sentences received by the contractors varied. Some received sentences of incarceration up to five years and others received criminal fines up to $1 million.

Two "consultants" were convicted of bribery and conspiracy charges and received sentences of incarceration of 6 and 4 years respectively.

The Department of Justice, together with the Defense Logistics Agency, has also undertaken both civil litigation and administrative actions to recover sums due the United States as the result of this conduct. These cases are often difficult, because the government employee charged with monitoring contractor performance, or determining compliance with the contract, was a participant in the illegal scheme. Little evidence still exists of the injury caused by these illegal acts.

Despite these problems, we have recovered the following sums as recovery of civil damages and waiver of contract claims asserted against the United States:

	Civil Damages Recovered	Claims Waived
H. Landau & Co. and Emanuel Landau	$ 69,000	
Dallas Uniform	$300,000	
Dale Fashions and George S. Chinnici	$450,000	$531,000
Leo Lamer	$360,000	
Major Coat Co. and Joseph Chinnici	$205,700	$466,000
Allen B. Edwards	$ 5,000	

A number of civil actions are currently being litigated in District and in Bankruptcy courts.

I believe these cases have had a significant impact on the Department of Defense's military procurement system. In response to these prosecutions, the Department of Defense established a review committee which has recommended ways to assure the integrity and honesty of its employees and contractors. Some recommendations include broadening its base of supply in the textile industry, simplifying and stabilizing procurement systems, notification of the standards of conduct for employees and contractors, as well as notification of the consequences of corruption as evidence by these prosecutions.

I believe it is very important that efforts be renewed to reach Department of Defense employees at all levels and to reach all who do business with the Department of Defense regarding integrity awareness and standards of conduct. It must be emphasized that the line between acceptable business practices and corrupt practices should be drawn early and clearly. That means, quite simply, all should understand that there are no free lunches, gifts or favors between government employees and the people who do business with the government. From the investigation it was learned that the corruption began with small gifts or loans between "friends" and grew in size and frequency.

This concludes my prepared statement. Ms. Hoffa and I will be happy to answer any questions the Subcommittee may have.

	Suspended	Recommended For Debarment	Proposed for Debarment	Debarred
Individuals	3	14	10	28[1]
Contractors	3	8[3]	8	16[2]
Total -	6	20	18	44

[1] Three individual's debarment has been lifted or expired (Hauptmann, Emanuel Landau and Wallace Foreman).

[2] Two companies' debarment has been lifted or expired (Ambassador Spat, H. Landau and Co).

[3] Debarment proceedings were terminated for 2 companies (Hialeah and Industrion).

Mr. Hutto. Thank you, Mr. Dennis for your testimony, and we appreciate the good work that you have done, and Ms. Hoffa, and the others whom you mentioned. We certainly agree with you that we want to take remedial action and try to prevent any recurrence and get into this and uncover everything that we possibly can.

I am assuming that among those convicted were Mr. Coccia?

Mr. Dennis. Yes, he was convicted.

Mr. Hutto. Mr. Lamer.

Mr. Dennis. Mr. Lamer was convicted.

Mr. Hutto. What kind of sentences did they get?

Ms. Hoffa. Mr. Lamer received a 6-year term of incarceration, $100,000 criminal fine, and $360,000 in forfeitures. Mr. Coccia received a 10 year sentence of incarceration, a $50,000 fine, and $331,000 were forfeited.

Mr. Hutto. Are they now serving time?

Ms. Hoffa. They are in jail, yes. I can tell you where.

[Laughter.]

Mr. Hutto. Ms. Hoffa, do you have a statement to make?

Ms. Hoffa. No, I do not.

Mr. Hutto. We do have some questions.

It is my understanding that in the 1950s a U.S. Senate subcommittee uncovered large payoffs and bid rigging by military clothing contractors. Were you aware of this particular subcommittee action? If so, was the subcommittee's work of any value to you in your investigation? What in your view could this subcommittee do to prevent the recurrence of a similar fraud in the future?

Ms. Hoffa. We were aware that these hearings had been conducted in the 1950s and that there was extensive corruption in the 1950s. Obviously the players involved in this case are different players, but I think the corruption was the same.

We all know that corruption has been around for a long time, since history was recorded. So it was significant to us that corruption existed back then, but it was necessary for us to find out who the new players were and how it was being conducted with the consultants, through the consultants negotiating the bribes.

With regard to your question as to what this subcommittee can do, I think that you can do what we attempted to do in these convictions when we asked that a message go out to everyone who does business with the Department of Defense that corruption will not be tolerated, and that the price for corruption is jail. That is what I argued to the sentencing judges not only for the Department of Defense officials who were convicted, but also the Government contractors. The consequences have to be very, very high for these people so that when they are given a situation, they are offered money, the answer is very clear. No way, I will not do it.

Mr. Dennis. Mr. Chairman, I would point out that the pathology of this corruption is quite interesting. In interviewing Mr. Coccia we learned that his introduction to corruption began with the acceptance of some shirts and ties from his former colleague, Leo Lamer. What began as what would seem to be a fairly innocuous gift between friends ended up evolving into a six-figure bribery scheme.

It is interesting how insidious the corruption can be and how clever those that engage in it can be in terms of drawing in employees.

There was one instance where one of the consultants was aware that an employee was interested in buying a sports car. Unknown to the employee, this consultant went to the dealer and paid $3,000 toward the car and told the salesman that he should negotiate an appropriate deal, taking into account the $3,000. Of course the employee was elated. He did not know what had occurred. Then of course after he purchased the car then the consultant told him what he had done for him.

It is in this fashion, sort of an enticing way, that employees can be drawn into a corrupt system. Once they are compromised, of course they are vulnerable. They feel vulnerable and they are vulnerable, and then they are willing to go along with more elaborate schemes.

So I think that certainly any effort to educate employees, new employees, old employees, low-level, high-level employees, to be aware and to be wary and to at least be familiar with what has happened in these cases and what can happen to them and how they can be drawn into this type of corruption would be very helpful.

Mr. HUTTO. Is there any evidence that this was part of an organized crime effort, Mafia-type?

Ms. HOFFA. No.

Mr. DENNIS. No, not at all. It was pure greed. There was no intimidation involved or threats. We had no evidence that it was being bankrolled by any Mafia figures. This was pure greed.

Mr. HUTTO. How many individuals were convicted?

Ms. HOFFA. Eighteen, and seven corporations.

Mr. HUTTO. Could you name the corporations? Do you have a list of them there?

Mr. DENNIS. I think they are in the statement.

Ms. HOFFA. H. Landau and Company, Selma Apparel——

Mr. HUTTO. Are all of these just regular clothing manufacturers?

Ms. HOFFA. Yes, but one company, H. Landau and Company was a textile converter. That means that he will supply cloth to the clothing manufacturers. He is sort of a middle person between the textile mills and the clothing manufacturers.

Mr. HUTTO. I am assuming this was all Government business?

Ms. HOFFA. Yes.

Mr. HUTTO. I see from the list where the civil damages recovered included $360,000 from Mr. Lamer, is that right?

Ms. HOFFA. Yes.

Mr. HUTTO. Did he stash his away in cash? How did he do that?

Ms. HOFFA. There was a search warrant executed on Mr. Lamer's residence, and in one jacket there was found approximately $60,000 or $70,000 stuffed in the inside pocket. But we did not find as much cash in his residence as we did in Mr. Coccia's residence. But we did have evidence that he had received this kind of bribe money and also fees as a consultant, and we required his forfeiture of those fees. So no, all that money was not seized by a search warrant.

Mr. HUTTO. How is it that no military personnel were involved? How could DPSC operate—it is a military function—without some military personnel knowing what was going on or being implicated in one way or another?

Ms. HOFFA. As I understand it, the civilian employees have been there for years and years. For example, Mr. Coccia was in that top position for 15 years. The military personnel changed over rapidly, every couple of years. So the long-term decisionmakers were civilian employees. At least that was my perception from this investigation.

Mr. HUTTO. Have any of the clothing and textile contractors who attempted to circumvent Small Business Administration size requirements by concealing their corporate affiliations been criminally prosecuted?

Ms. HOFFA. Yes. Selma Apparel, Dallas Uniform, and Gulf. They were headed up by an individual, Mr. James Utsey who is now in jail, and his vice president who was Allen Edwards. In addition to charging them with the bribes, they were also charged with false statements in connection with being big business and getting hundreds of millions of dollars of contracts that they were not entitled to receive because they were all affiliated with each other. That was a very complicated and difficult prosecution.

Mr. HUTTO. Do you have any recommendations on how this type of fraud could be prevented?

Mr. DENNIS. The only, and this is sort of off the top of my head, suggestion that I could make is that perhaps these companies ought to be audited more frequently, that they should be looked at more closely with regard to possible affiliations. There is an incentive, obviously, for companies that have small business, who are designated as small businesses to keep that designation. I would just think that we need to be more vigilant to be sure that a program that is designed to assist small businesses is actually assisting small businesses. Once they become large businesses then they should compete with firms of their same size.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. In your investigation of this case did you find the system to be so complicated that consultants were necessary to help these companies work through the labyrinth of regulations, or were the consultants hired purely as a facilitator of graft?

Ms. HOFFA. I would say that Mr. Lamer's business was about 99 percent corrupt. The other consultant convicted in this case, Joseph Cagnel, I think the same existed as well. These people were used by the Government contractors to get that inside track, that secret information, the favoritism, and they paid for it. So it was corruption. It wasn't the complications in dealing with the system.

Mr. LANCASTER. From your assessment, you feel that an ordinary textile company could in fact participate in the procurement system without the hiring of a consultant?

Ms. HOFFA. I understand that they are simplifying the system now and that efforts have been made to promote more companies to start doing business with DPSC to help new contractors go into this kind of business, and I believe that General Voorhees is going to address that.

That is a hard question for me to answer because I was really looking at the corruption and not the nature of the business.

Mr. DENNIS. There might well be a legitimate role for a consultant who is familiar with the process and advising a client on a legitimate basis how to go about positioning oneself to best advantage to secure a contract. But the temptation to use influence and contacts with former colleagues and the temptation to take advantage of that in a corrupt way I think is pretty substantial.

Mr. LANCASTER. Apparently this corruption extended from the very top to the very bottom with all levels involved, and apparently the only way this was ever detected was through the defective materials which were used and which led into the morass. Why was it that it was not discovered before?

Ms. HOFFA. We had heard rumors about the corruption at DPSC, but it is a close-knit organization. That means that we thought about using undercover agents to pose as contractors or consultants to do business, but the players involved in the corruption had been together for so many years that they closed out other people. They did not trust any new players. They were very intelligent and very suspicious. That is why we had to listen in on their conversations rather than introduce players.

Mr. LANCASTER. So if you were a military person assigned there for a short period of time, was the method of operation so secretive that those people did not know what was going on?

Ms. HOFFA. Yes.

Mr. DENNIS. I think they went to great pains to make sure that at least to the military personnel involved that they were not made to look bad, let's put it that way. If you are supplying defective materials, then there is going to be an investigation. That is not what they were about. There was a defective materials case that led us into this network of corruption, but that was not the pattern that we observed at the core of these cases.

They seemed to be supplying the clothing and textiles on a fairly legitimate basis insofar as quality and quantity were concerned. But the main thing was to basically form a bit of a monopoly here with a group of contractors who had a relationship through these consultants with the employees, and they basically were able to secure for a substantial period of time and monopolize the business of supplying these clothing and textiles to the military services through the corrupt arrangement.

Mr. LANCASTER. Were any of these companies doing business with other Federal agencies?

Ms. HOFFA. No, not that I know of.

Mr. LANCASTER. This was the honey pot, and they did not need to deal with any other Federal agency to——

Ms. HOFFA. Right, and they are clothing and textile and they were Department of Defense contractors so they dealt with DPSC.

Mr. LANCASTER. So there was no reason to get involved with debarment or suspension with regard to other agencies? This was all contained right within——

Ms. HOFFA. As far as I am aware, yes.

Mr. LANCASTER. No further questions.

Mr. HUTTO. Mr. Hefley.

Mr. HEFLEY. I do not have any questions at this time.

Mr. HUTTO. Mr. Dennis, you stated that the corruption within DPSC extended from the highest working official to clerical employees who processed payment requests. In effect it included employees at all levels of the organization and many officers. In view of that, and assuming that there are many honest employees working at DPSC, I find it kind of difficult to understand why this fraud was not uncovered earlier either by a whistleblower, internal audit, or management. Do you understand——

Mr. DENNIS. I understand your question.

Ms. HOFFA. Because people are suspicious of other people, and they can tell us they suspect a chummy relationship between contractor X and Government official Y, but the corruption was on a one-to-one basis. They deal with each other and they do not talk to other people about it, so the suspicions or the rumors happened because people seemed to be friendly with each other or helping people out, but they do not see the money passing, or the kind of evidence that you need to warn of a criminal law violation. That is why it is hard to find out about it.

As far as a whistleblower goes, somebody who has hard core information, that would be those people who were involved in corruption themselves and they were very happy in their relationships. The Government officials were happy to take the money, and the contractors were happy to pay it and get those inside services that they were getting.

Mr. DENNIS. There is another aspect I think on this as well. This may show my age, but as I recall going back a few years, our ability to really handle sophisticated white collar crime type cases, of which this is fairly typical, I think has come a long way over the years. The use of wiretaps in white collar cases was virtually unheard of 10 years ago. We used it in drug cases, we used it in theft cases, but in terms of these white collar cases we did not tend to use that, and we did not use the search warrants, and we did not use the informants. I just think that law enforcement has grown up to the challenge of being able to actually put together a case such as this, because I cannot imagine, at least my recollection of the sophistication of cases we were handling. When I started as the Assistant U.S. Attorney in 1975, this would have taxed the entire U.S. Attorneys office and the FBI. Now it is handled just as a part of sort of our normal case load. It is not an average case, but we can handle these kind of cases now, whereas I think in the past we just did not have the focus. We did not have the Inspector Generals and we did not have the Defense Criminal Investigative Service to go to and basically get us on the inside and really tell us what was going on. If you had an FBI agent and an AUSA, they had to start by reading that report you mentioned in 1950 and try to figure it out from there. By the time they did, the statute of limitations usually had run.

So I really think it is a matter of the fact that we have had to evolve into the capability to handle these cases, that we just have not had it until recently.

Mr. HUTTO. How many of these contracts were competitively bid?

Mr. DENNIS. I am not aware of that in terms of percentages.

Mr. HUTTO. But some of them were?

Mr. **Dennis**. Yes, some were and some were not. That is one aspect of the fraud, where there was competitive bidding, that did seem to be a more secure process at least in the sense that if it was sealed bids and they were all opened at the same time in front of the contractors there was not as much opportunity to steer the work to a particular contractor. Ms. Hoffa has a little more insight on that than I do in terms of the specifics.

Ms. **Hoffa**. There were still ways they could help on a sealed bid method. They could get their competitors knocked out on pre-award surveys, to be found non-responsive or non-responsible on their bids. They could influence the system in as many ways as a procurement officer makes a decision. So we had corruption in competitive bids as well.

Mr. **Hutto**. I am surprised that some of the competitors did not suspect something going on like that.

Mr. **Dennis**. I do not know whether some had been forced out of the market a long time ago, knew this was a closed shop and there was no use wasting your time and money in trying to break in, and I guess it is always the case that when a competitor comes in with suspicions of corruption, that is always looked at a bit, well not cynically, but I guess cynically is the word because you never are quite sure whether it is sour grapes or there is really something there.

If a contractor can back that up with some more indication other than the fact that he did not get the contract, we may be in a position to launch an investigation. But I know that just the suspicion of a contractor without more is kind of a thin reed to predicate the initiation of a very wide ranging investigation. These investigations, as you can tell, are really resource-intensive. I mean you really, the Grand Jury, the Title IIIs are extraordinarily expensive. So you have to get some more substantial predication before you will launch into one of these investigations.

Mr. **Hutto**. I think you made a very good point a while ago about the management needing to make the employees aware of the consequences of accepting gifts or favors or being on the lookout for this sort of thing. That certainly is something that should be pursued.

Your office was primarily concerned with the criminal aspects of this case, but in addition there were other civil and administrative actions such as suspensions and disbarments that involved the DPSC, the Defense Logistics Agency, and other DOD Offices.

Did your office consider the needs of other interested parties? For example, what took precedence—the prosecution of a company for a criminal act or suspension or debarment proceedings of a company that was doing business with the other Government agencies?

Mr. **Dennis**. In general, and this was the course we followed in almost all of our defense procurement cases, not just this one, the Defense Department, as I recall, even though they were aware of an investigation, would generally not act to suspend until an indictment was returned. After an indictment was returned, then the company would be suspended and the Defense Department would begin an investigation into whether or not debarment should take place.

We generally insisted upon a priority for the criminal investigation because one of the reasons is we are in a better position to get to the bottom of things I think, because we have the Grand Jury and we have the ability to wiretap and so forth. So although it may delay a debarment that otherwise might take place, usually the record is much more thorough, and you have the opportunity then to see if others might be involved because our investigations tend to start here, but you may at the end of the investigation end up with evidence involving many other companies and individuals. The idea is to really get, to excise as much of the corruption within an organization as we can determine.

So we did insist on a priority of the criminal investigation, but we were not insensitive to the needs of the services with regard to suspension, debarment, as well as taking corrective measures. So I am aware that extraordinary steps were taken to make available some of the corrupt officials and contractors outside of the Grand Jury setting, to allow that information to be heard first hand by the responsible agency officials for purposes of their suspension and debarment determinations, and I think for the most part the relationship was determined or the procedures and the priorities were determined to be satisfactory.

Ms. Hoffa may have a different slant on that. You don't? Good.

Mr. HUTTO. It is my understanding that this was one of the most extensive and successful bribery cases prosecuted in the Department of Defense. Would you agree with that evaluation? Could you give us an estimate of the cost of the total man hours involved?

Mr. DENNIS. I do consider this, and from what I have been told in terms of the Defense Department which would be aware of investigations in other districts, and certainly the Defense Criminal Investigative Service, that this was the first of its kind in terms of its scope and its success. As I stated before, the resources required to conduct this investigation were very substantial. In terms of putting a dollar figure on it, I am not sure we could do that.

Well, the total investigative cost may have run well over a million dollars, and that is not surprising. The wiretaps alone are going to get you into the half-million dollar range. I think we estimate that one wiretap costs about $75,000 on an average because it is not only the setup but the surveillance that you have to run in conjunction with them. They are very labor-intensive. You have to use a lot of agents with them, have the follow-up interviews and the seizures. So that would sound about right to me.

Mr. HUTTO. What was done with the money that was recovered?

Mr. DENNIS. It went back into the Treasury of the United States.

Ms. HOFFA. No percentage for the prosecutors.

[Laughter]

Mr. HUTTO. What I am getting at is, it was a net profit.

Ms. HOFFA. I hope so.

Mr. DENNIS. Absolutely.

Mr. HUTTO. Recoveries totalling $4.2 million from Rico forfeitures, criminal fines, and criminal judgments resulted from the investigation, as we understand it. I am familiar with Rico. What do you mean by Rico forfeitures?

Ms. HOFFA. By that I mean that the individuals were charged under the Rico statute, racketeering, and under the provisions of that statute we were able to get a forfeiture order from the District Court Judge.

Mr. Hutto. Is this investigation completed, or are there additional actions contemplated?

Ms. Hoffa. We think it is pretty much done.

Mr. Dennis. There are some fringe aspects, but the basic core of the case has been completed.

Mr. Hutto. Who is keeping their eyes on the shop now?

Mr. Dennis. I think this is an institutional response. The Defense Criminal Investigative Service and the FBI now as a result of this case and other cases that they have worked on together I think have a solid working relationship. The U.S. Attorneys Office is certainly very committed to this area. The current U.S. Attorney, Mike Baylson, is very supportive and is maintaining a substantial emphasis on defense procurement fraud as a major priority for his tenure as U.S. Attorney. So I am confident that investigations like these are in good hands and that the efforts of law enforcement in the Philadelphia area certainly are postured such that we will be in a position, I think, to adequately respond to similar situations that might involve other agencies.

Mr. Hutto. Mr. Machtley, do you have any questions?

Mr. Machtley. I would just ask one brief question. I apologize for missing your testimony. I have attempted to quickly read through it and be aware of it.

There has been some discussion amongst many people in this country about changing the Rico laws. How important were those Rico laws for you in your investigation? Could you have performed without them?

Mr. Dennis. It would have been very difficult. I think the racketeering statute in this case was clearly appropriate. It is an absolutely essential tool for dealing with corruption on a wide-scale basis. The forfeiture provisions permitted us to make seizures of bribe money that was uncovered at the residences of two of the major officials and consultants involved in this scheme. I really feel that the criticism of the racketeering statute as I have seen in editorials is misplaced. That statute has served us well in organized crime, white collar crime environments, and I think it is an essential tool for law enforcement.

Mr. Machtley. The amount of bribery and the amount of damages recovered were certainly, I hate to use the word impressive, but they were certainly substantial. I guess the question, is what is the lesson learned so that this does not occur either in this particular environment or in any other defense contracting environment? As an outside party, what do you think the lesson is? How can we prevent that?

Mr. Dennis. I think the lesson is that we have to be always vigilant. That we cannot assume that institutions are going to function in an honest and uncorrupt way. I think the temptation toward corruption is always there, and if you are not vigilant and if you are not prepared to vigorously and aggressively conduct audits to provide the guidance to employees through orientation and in-service training programs, if you are not in a position to receive and act on information you may get from an employee or disgruntled contractor who suspects corruption, then you can be guaranteed that you are going to have it, and the longer you let it go the more entrenched it will become and the more difficult it will be to take care of it in the future.

Mr. **Machtley**. So I infer from your statement that this was not a situation that could not have been acted upon, but that was ignored; and therefore you are saying when there is this rumbling which was apparently clear in this case, someone in the organization should have acted upon it?

Mr. **Dennis**. This goes back quite a few generations. I do not think it is any one individual. I really view it as a systems problem. It is one that is not atypical. I would not point to Defense Logistics Agency or the Defense Personnel Support Center as being alone in this regard. I feel that in general we perhaps have been a little too generous with our assumptions about the integrity of public institutions generally. Because of that we have kind of ignored or preferred to assume that everything was being handled on an above-board basis when it was not. That is not atypical.

Again, I feel we must be vigilant, and we must be realistic.

Mr. **Machtley**. Thank you very much. Thank you, Mr. Chairman.

Mr. **Hutto**. Our staff has a couple of questions. Mr. Cofer.

Mr. **Cofer**. Ms. Hoffa, I would like to ask one question in terms of looking at General Voorhees' statement that comes up, and discussing this with some of the people who had a part to play in it.

I would like to address the nature of the procurements in relationship to the small number of companies that were involved. I think when we look at this thing, at least in talking to people, there are about 2,000 companies involved in textiles, manufacturing or buying or having a part to play. Of that, about 247 were active in one way or another. Then you get down to about 55 that really were dealing in that environment and getting most of the contracts, and I think the Department of Defense suspended or debarred 44 to 46 of those.

But when you look at the statements and you relate it to what was selling or what the Government was trying to sell, in our discussions with some of the Defense Personnel Support Center they said we had about 8,000 items of textile related, one or the other. Only four of those items were commercially bought off the shelf. So for most of the items that these people are bidding on there is a Government spec.

Is there a relationship in terms of this investigation between having specifications so tight, I think 35 different specifications for Government underwear, for men's underwear——

Ms. **Hoffa**. There were no bribes for underwear, by the way.

[Laughter]

Mr. **Cofer**. I am just trying to say that if you have the specifications so tight that you do not allow off-the-shelf or commercial procurement, does this not allow these kinds of things where a certain number of companies just can meet those specs? Or is that idea basically all wrong?

Ms. **Hoffa**. The contractors complained, the ones who were convicted and then cooperated and were debriefed, complained that to a certain extent specifications were very difficult to deal with and that made doing business with the Government very difficult and therefore in their minds justified, was one of the reasons to justify bribery and corruption. But I am by no stretch of the imagination an expert on clothing or textile matters. All I can say is that this was a complaint that was voiced, and I did see in General Voorhees' statement that in an effort to deal with these problems that they are attempting to simplify specifications.

So it seems to me to make sense, but I cannot hold myself out as an expert from my work on this case in that regard.

Mr. Cofer. Thank you.

Mr. Hutto. Mr. Waters.

Mr. Waters. Thank you, Mr. Chairman.

Just one question. I wanted to follow up on what Mr. Machtley was talking about, the environment. DPSC in addition to the clothing and textile directorate, two other directorates, subsistence and medical. When we are talking about the environment, I presume we are talking about DPSC in general, and educating the employees in general, and I think we are probably talking about in the past.

We will follow up with the General and his people on this, but, Ms. Hoffa, do you have any questions on the other two directorates in Philadelphia along these lines? Or is that——

Mr. Dennis. That was beyond the scope of this particular case. It did not bridge over to the other directorates insofar as this case is concerned. But we have an ongoing relationship with not only the Defense Personnel Support Center but the Defense Industrial Supply Center which is also located in the same complex, and we have had some investigations out at DISC.

We feel that through our experience in this case and other cases, the relationship that we have with the agency, that we will be prepared to deal with instances of corruption should it occur in other contexts. But certainly we did not have and have not witnessed the same breadth of corruption in the other directorates that we have seen in the clothing and textile directorate.

Mr. Waters. Thank you, Mr. Chairman.

Mr. Hutto. Thank you.

Mr. Dennis, Ms. Hoffa, we want to thank you very much for your testimony. It was very informative. We appreciate you taking your time to be with us today. Additional questions will be submitted to you, and we would appreciate a quick response so that they may be included in the record.

[The following questions were submitted to be answered for the record:]

Department of Justice

Question. Can you give us some examples of the assistance a company received for $40,000?

Mr. Dennis. The best example of the kind of corrupt assistance that is provided in return for the payment of $40,000 in contractor kickbacks and gratuities is the release of secret bid information reflecting a competitor's pricing position. Other examples include waivers from the Government for substandard materials and delivery order extensions.

Question. Can you tell us to what extent these waivers and extensions were given and whether they should have been indicators to management or auditors that problems existed?

Mr. Dennis. It is impossible to quantify the number of waivers and extensions that were granted by dishonest employees of DPSC. Our investigation uncovered hundreds of waivers and delivery order extensions which benefited the contractor on hundreds of contracts. Although the number of Government waivers and extensions in this case appears to be outrageous, it may not necessarily alert managers to the possibility that Government employees are not exercising sound judgment. Decisions, such as these, are routine in nature, although they involve the exercise of discretion by procurement personnel. In and of themselves, they should not be taken as indicators of fraud. Such decisions are always supported by memoranda in the file containing generally compelling reasons to justify the action taken. It is not uncommon to find that employees have taken steps to document their actions in this fashion in order to prevent superiors and Government auditors from uncovering fraudulent and irregular procurement practices.

Mr. DENNIS. Thank you very much, Mr. Chairman.

Mr. HUTTO. Thank you both very much for being with us.

Ms. HOFFA. Thank you.

Mr. HUTTO. Our next witnesses are from the Defense Personnel Support Center, Maj. Gen. John H. Voorhees is the Commander of the Defense Personnel Support Center, and he is accompanied by Mr. Robert Molino, the Executive Director for Acquisition Management, Planning and Support; Col. John Caputa, USMC Directorate for Clothing and Textiles; and Capt. H. E. Kuhns, Supply Corps, USN, Director for Subsistence.

Gentlemen, it is a pleasure having you here with us this morning. General Voorhees, we will ask you now for your statements. You may proceed as you see fit.

If you have a lengthy statement, we will be happy to submit it for the record completely and you may summarize.

STATEMENT OF MAJ. GEN. JOHN H. VOORHEES, USAF, COMMANDER, DEFENSE PERSONNEL SUPPORT CENTER; ACCOMPANIED BY: ROBERT MOLINO, EXECUTIVE DIRECTOR FOR ACQUISITION MANAGEMENT, PLANNING AND SUPPORT; COL. JOHN CAPUTA, USMC, DIRECTOR FOR CLOTHING AND TEXTILES; AND CAPT. H. E. KUHNS, SC, USN, DIRECTOR FOR SUBSISTENCE

General VOORHEES. Mr. Chairman, thank you very much. We are pleased to appear before the Subcommittee on Readiness this morning to discuss both the procurement fraud at the Defense Personnel Support Center and some specific unrelated commissary issues that were mentioned in your letter of 13 February.

I think first, just a few facts about the Defense Personnel Support Center. Our detailed statement has been forwarded to you for the record.

Mr. HUTTO. Yes.

General VOORHEES. As you know, we are responsible for food, clothing, textiles, and medical materiel support to the armed forces worldwide. We employ some 5,500 civilians and about 150 military, and they are located inside the continental U.S., in Europe, and in the Pacific theater. It serves as an inventory control point for some 50,500 items with annual contract awards of nearly $4 billion.

To explain first the impact of fraud on clothing availability to our forces, let me describe the industrial base as I saw it over the past several years and then update you to our current status.

In the 5 years preceding the indictments, the industrial base supporting the clothing and textiles directorate was in a continual decline. This decline I characterized as being a result of manipulation of the procurement process. Where once we had some 65 firms offering procurements on an item such as dress coats, in the time frame that we are addressing five firms or fewer were expressing interest. Supply availability, which is the primary indicator of our support to the services, declined steadily from 94 percent in July of 1984, to 87 percent in October of 1986. While we maintained some 1,400 firms on the bidder's list, 10 firms received more than 25 percent of our award dollars. Our readiness posture at the time of the fraud case was indeed poor.

As a result of the indictments, the debarments, and subsequent abandonments, we lost 80 percent of our production base for dress coats; 50 percent of our base for utility clothing; and 25 percent of our base for shirts.

The Navy experienced the most severe short-term impact, primarily because of the limited number of producers of specialty items and the immediate impact of suspensions. In August of 1987 the Navy supply availability had fallen to 75 percent which was a record low.

The immediate effect of the scandal was a crisis of confidence with respect to our dealings with the services. They looked to us immediately for assurances that we would be able to sustain the uninterrupted supply of clothing items that they were accustomed to. We could not provide that assurance primarily because we really did not know the ultimate impact of the investigation and the subsequent impact on the supply.

Perhaps the single most important step that we have taken to improve our support for our customers has been the development of a comprehensive management improvement strategy for clothing and textiles. It incorporates what I will call an interdisciplinary team approach to intensive item management, better sensitivity to industry practice, innovative planned procurement, and responsible contract administration.

In order to revitalize our procurement process effectively we had two immediate goals. First, to expand and to diversify our production base. Second, to buy smarter, factoring in not just price but also quality and performance into every procurement.

We have had an ambitious and I think at this point successful source development effort and outreach effort. We contacted directly some 500 firms who had never done business with DPSC before and through trade associations we have made reached almost 2,000 potential offerors.

During this past year we have had 25 awards that are valued over $100 million to first-time producers. Perhaps more significantly, we have diversified our base to include a healthy mix of both large and small contractors such as Hartmarx, Van Heusen, London Fog, and Stanley Blacker.

We believe our efforts have strengthened our production base, increased competition, and added stability of firms that are not exclusively dependent on Government contracts.

In addition we have reformed some of our old business practices. We are not relying totally on the sealed bid process. We are negotiating large, complex acquisitions and requiring offerors to submit technical proposals demonstrating their ability to produce a quality product on time. The low bid is not the only decision parameter.

For items where market capacity has historically caused supply failures, we are now insisting on awards among multiple producers. Each contractor then in a multi-source contract is guaranteed a minimum economic order quantity, but orders beyond the minimum are determined by factors of quality, timely delivery, and price for future orders.

Long-term contracts are being used to attract viable firms to add stability to our base. Thus far, the results are encouraging. As a result of our outreach and source development, we have more than doubled our sources of dress coats which was our hardest hit area. Our overall supply availability has exceeded 90 percent for the past 7 months, and support to the recruit centers is good.

As for lessons learned and actions to prevent fraud, obviously too much authority vested in key individuals tends to lend itself to manipulation. The separation of basic functions like requirements determination and procurement decisions must be maintained. To that end we have diversified the approval authorities for requirements and procurement decisions.

A second fundamental change is the implementation of the advanced acquisition planning system. The system requires now the involvement of key line and staff offices in the planning of major procurements in a visible, corporate fashion. Overseeing all of this is a newly designated Executive Director for Acquisition Management who reports directly to me, independent of the commodity directors responsible for the supply mission, and that is Mr. Molino here.

I am confident that we have learned the hard lessons of the fraud experience and have effectively recovered over the past 2 years. I believe we have the tools in place to sustain efficient supply operations.

This concludes my prepared statement, and we are prepared to answer any questions you may have.

PREPARED STATEMENT OF MAJ. GEN. JOHN H. VOORHEES

Prepared statement by John H. Voorhees, Major General, United States Air Force, Defense Personnel Support Center, Defense Logistics Agency, Department of Defense.

Mr. Chairman and members of the subcommittee, I am Major General John H. Voorhees, Commander of the Defense Personnel Support Center, a primary level field activity of the Defense Logistics Agency (DLA). I am pleased to appear today before the subcommittee on readiness to discuss the procurement fraud at the Defense Personnel Support Center and some specific, unrelated commissary issues mentioned in your letter of 13 February 1989.

INTRODUCTION

First, I would like to provide you with a brief overview of the mission of the Defense Personnel Support Center. The Defense Personnel Support Center is responsible for providing subsistence, clothing, textiles and medical materiel support to the Armed Forces worldwide. This command serves as an inventory control point for more than 50,500 line items with annual contract awards of nearly four billion dollars. For fiscal year 1988, clothing and textiles accounted for more than one billion dollars. while subsistence awards exceeded 1.6 billion dollars. The Defense Personnel Support Center employs approximately 150 military and 5500 civilians located in the continental United States and the European and Pacific theaters. The vast majority of these people are stationed in Philadelphia, Pennsylvania. The center is divided organizationally into three commodity directorates, Clothing and Textiles, Subsistence and Medical Materiel, which are supported in their mission by a variety of central staff offices.

SPECIFIC ISSUES

Now that I have provided you with some background information on the Defense Personnel Support Center, I will address the issues of concern.

IMPACT OF FRAUD ON CLOTHING AVAILABILITY

In the five years preceding the revelation of the procurement fraud, the industrial base supporting the Directorate of Clothing and Textiles was in decline. This decline was a direct result of the manipulation of the procurement process. Where once 65 firms had offered on procurements for Army dress coats, five firms or fewer were expressing interest; and a number of items with smaller requirements than the Army coat were available from only one firm. Supply availability, the most important indicator of our support to the Services, declined steadily from 94 percent in July 1984 to 87.9 percent in October 1986. Supply availability for the Navy alone had dropped from 93.6 percent in November 1984 to 76.3 percent in October 1986.

This decline was evident in virtually every aspect of the clothing mission. Our customers were becoming increasingly concerned about the poor quality of the items we were acquiring on their behalf. The Services were writing increasingly detailed specifications in order to protect themselves against the poor producer; unfortunately, these restrictive documents had the negative effect of discouraging good producers from competing for Government contracts. As we became more concerned with telling the contractor precisely how to make a garment, we deprived ourselves of the benefits of advancing technology, which led to fewer contractors and further served the interests of the fraud scheme. Our specifications became outmoded, further reducing our ability to attract new, viable producers of military uniforms and maintain a healthy competitive marketplace.

Our contracting methods were also outmoded. Because of our exclusive reliance on sealed bidding methodology, no matter how complex the item, we made all our award decisions on the basis of price. This had the twofold effect of making it difficult for new producers to enter the process (because first time offerors are prone to making errors that are fatal in sealed bid acquisitions) and downgrading the importance of timeliness and quality. This methodology further served the scheme by limiting corporate management involvement in the procurement process. We were, effectively, sending our suppliers the message that price was of paramount importance. In retrospect, our quality problems were readily understandable, as well as the sixty percent contract delinquency rate that we experienced on our contracts.

As a result, our readiness posture at that time was poor. We had adequate stock on hand for only fifty percent of our recruit issue items. We were out of stock for virtually every Navy item we manage as well as readiness-impact items like battle dress uniform coats and trousers, battle dress caps, and flyers' coveralls. Our producer base had atrophied to the point that ten firms received more than twenty-five percent of our award dollars during the course of a year; and twenty-three firms had consistently dominated our awards. The few remaining firms receiving Government contracts had no start-up costs to amortize and, therefore, had an insurmountable advantage over potential new suppliers because of our emphasis on price. Many of the contractors who did business exclusively with the Government were poorly capitalized and were very vulnerable to failure.

The indictments that were announced in February 1987, and the ensuing debarments and suspensions, further served to accelerate the process of decline. In the final analysis, only twenty-three firms from a bidders list of more than 1400 were suspended or debarred.

Yet, because of the disproportionate market share commanded by a few firms, Clothing and Textiles lost eighty percent of its production base for dress coats; fifty percent of its base for utility clothing; and twenty-five percent of its base for shirts. Although the firms involved were permitted to continue work on their previously-awarded contracts, the prospect of no further Government contracts for firms that did business exclusively with the Government made it impossible for these firms to obtain the necessary operating capital. One by one, these firms abandoned their contracts and ceased operations. The Navy experienced the most severe, near term impact because so many of its items had been in critical status prior to the indictments. Those few firms who could and would produce Navy items were suspended pending debarment, leaving us without suppliers for a wide range of items, including dress jumpers, dress shirts, pea coats, chambray utility shirts and denim utility trousers. Overall, our supply availability for the Navy was 78.3 percent in January 1987. By August 1987 it had fallen to 74.8 percent, a record low.

Because our posture in support of the other military Services was better prior to the indictments and suspensions, the impact was more slowly felt by those other Services. In January 1987, our Army supply availability was 93.1 percent; this gradually declined over the ensuing months, reaching a low of 90.2 percent in April 1988. Similarly, Marine Corps supply availability was 92.8 percent in January 1987, but fell to 83.8 percent in May 1988. The single most important factor in this decline was the virtual elimination of our production base for dress coats. The Services require slightly less than one million dress coats per year. The suspensions and debarments left us with a production capacity sufficient to produce only two hundred thousand coats per year. As the debarred and suspended contractors completed their pre-existing contracts during the second half of

1987, and in the absence of new suppliers, supplies of dress coats dwindled and supply availability fell. To a lesser extent, dress shirts (both men's and women's) also contributed to the decline.

The immediate effect of the scandal was a crisis of confidence. Our customers looked to us for assurances that we would continue to provide them with an uninterrupted supply of the clothing items they required, assurances that we were unable to provide because of our lack of knowledge of the scope of the investigation and the numbers of contractors implicated in the fraud. Our customers were forced to make adjustments. The Marine Corps allowed its recruits to graduate from training in sweaters rather than the traditional dress coat. The Air Force reduced its dress coat issue to recruits from two to one. The Army froze retail dress coat assets in the exchanges to insure availability for recruits. We had quite clearly failed in our mission to support the Services' clothing requirements.

ACTIONS TAKEN TO CORRECT SUPPLY PROBLEMS

The single most important step we have taken in an effort to improve our support to our customers has been the development and implementation of a comprehensive management improvement plan for clothing and textiles. This plan spans all the disciplines that comprise our clothing and textiles mission - supply, contracting, technical operations and quality assurance - integrating them in a concerted effort to furnish the military Services' with the support to which they are entitled. Our goal when we implemented the plan in the fall of 1987 was to achieve 100 percent availability for recruit items and 90 percent availability for all other items.

I will deal separately with our efforts to revitalize the procurement process. At this point, however, let me point out some of our efforts in the other functional areas. For example, we established a system for quickly identifying and escalating problems that pose a threat to supply support, a kind of early warning system that has served to nip many problems in the bud. Our supply people have adjusted their delivery requirements to conform more closely to industry practice. Our technical experts are working more closely with the military Services to insure that the specifications we use to procure more closely reflect industry practice while safeguarding military unique requirements. Our quality assurance personnel are communicating more effectively with our inspectors in the contractors' plants, providing guidance on inspection practices and explaining the significance of new contractual provisions.

We have managed intensively each critical item to insure maximum support to our customers with the assets at our disposal. We placed particular emphasis on support to the recruit induction centers, and have reserved levels of stock to insure availability in support of recruit requirements. We have delivered large quantities of clothing directly from the producer's plant to the recruit centers, bypassing our depots and saving significant amounts of time in so doing. Our own clothing factory has produced items for which we temporarily had no other source or limited productions. such as dress jumpers for the Navy as well as Army and Marine Corps dress coats. We continue to work with the recruit induction centers, individually and collectively, to prioritize their requirements and to insure that no recruit leaves training without a full complement of uniform clothing.

ACTIONS TAKEN TO REVITALIZE THE PROCUREMENT PROCESS

In our efforts to revitalize the procurement process at DPSC we have two goals: first, to expand and diversify our production base; and second, to buy smarter, factoring in quality and performance with every procurement. These goals required a fundamental change in the way we do business and required the corporate involvement of all functional disciplines in the acquisition process.

The first of these goals we have addressed by means of a vigorous and successful source development effort. In the months immediately following the indictments, we relied upon each contracting officer to develop the sources of supply necessary to support each of our items. While we did enjoy some notable successes, it became apparent that we were merely making do, and were not making any lasting improvement in our production base. For that reason, we established a permanent, dedicated source development organization that is employed, full-time, seeking out and encouraging potential new Government contractors. We have made direct contact with more than 500 firms who have never previously done business with DPSC; through trade associations we have reached more than 2000 firms. As a result, during the past year we have made twenty-five awards, valued at more than $100 million, to first-time producers; and many more new sources are continuing to submit offers. Perhaps more significantly, we have diversified our base with a healthy mix of large and small contractors such as Hartmarx, Van Heusen, London Fog and Stanley Blacker. Our efforts do not end when we have such firms under contract. Our source development team monitors their progress to insure that we do not lose a producer due to frustration over red tape. We believe that our efforts have permanently strengthened our production base, increased competition and added the stability of firms that are not dependent upon Government contracts for their survival.

Equally important has been our effort to reform our business practices. I have previously stated that our exclusive reliance on sealed-bid methodology made it difficult for potential new producers to break the grip of established Government contractors and those involved in the fraud. Increasingly, we are now relying on negotiation in our complex acquisitions and we are requiring offerors to submit technical proposals demonstrating their ability to produce a quality product on time. Although still an important factor, price is no longer the sole determinant of which offeror receives an award. Our experience has shown that exclusive reliance on the low bid led to false economies. As I noted earlier, our specifications have been a deterrent to new firms both because they do not reflect state of the art technology and because they do not permit a manufacturer any flexibility in determining how the garment will be produced. On a selective basis, we are now offering producers an opportunity to tell us how they propose to make our items and, assuming their proposal meets the needs of our customers, we are able to make awards that incorporate their changes. We have done this with success on several of our dress coat acquisitions during the past year with the result that we have eight new producers of dress coats currently under contract and in production. We have also embarked on a commercial buying experiment, in which we have simplified specifications on the basis of a commercial model, greatly reduced the volume of our solicitation packages and put them into plain English and incorporated industry's proven quality systems and warranty assurances. We received industry participation in the development of the experiment and then proceeded. We reduced the solicitation from sixty pages to twelve and are targeting an award within ninety days of issuing the solicitation. This is one of our bolder efforts to drastically change our business practices, capitalize on the proven experience of the industry and further the Department's efforts to adopt commercial buying practices. We think it has great potential. We expect to make our first such award, for Navy utility trousers, in April with Army dress shirts to follow shortly thereafter. We expect much wider participation on these acquisitions than these items have stimulated in the past.

As new firms, many of them well-known apparel manufacturers, accepted our initial source development invitation, they repeatedly told us that their continued participation required long-term commitments and the opportunity to continue to bid on our work. To this end, we have incorporated quality and performance factors into our acquisition process. We are also structuring all major acquisitions into long-term contracts. This brings a diversified stability to our production base while encouraging potential new producers to seek Government contracts.

For items on which market capacity has historically given rise to supply failures, we are now insisting that our awards be divided among multiple producers. We have developed a unique multi-sourcing strategy that requires award to more than one contractor for the same item during the same performance period. We have further attempted to ensure sustained quality and timely performance by incorporating the long-standing commercial practice that good performance gets you more business. Each contractor in a multi-source contract is guaranteed a minimum economic order quantity. Orders beyond the minimum are determined by a decision matrix which factors in past quality, timely delivery and price in the awarding of further orders. This effort to sustain and stabilize our contractor base while rewarding timely performance is not only an effective contracting strategy, but is also, we believe, a unique achievement in the federal procurement process.

The results to date of our efforts have been very encouraging. We have more than doubled the number of offerors on our Army dress coat acquisitions. Our supply availability is better than it has been in any of the past five years; it has exceeded ninety percent for the past seven consecutive months, and it reached ninety-two percent in December 1988. We now have adequate stock on hand for more than eighty-six percent of our recruit items, and that figure continues to climb. Our delinquency rate is dropping. Most importantly, our customers are beginning to enjoy the quality of support to which they are entitled.

ACTIONS TAKEN TO PREVENT FRAUD

Our Agency headquarters has established a functional panel that has developed and is overseeing the implementation of measures aimed at preventing fraud in the clothing acquisition process. This panel, as well as our own analysis, has identified lessons learned and we have quickly implemented these to enhance the integrity of the procurement process at DPSC. Some of these are tailored to the specific circumstances of DPSC and some are more universal in their application.

One of the fundamental lessons learned is that too much authority vested in key individuals lends itself to manipulation. Two close corollaries to this lesson are that the separation of basic functions must be maintained and participation in the acquisition process must be diversified. Simply stated, the person determining requirements (or influencing them) must be separated from the person procuring them. Just-in-time requirements determination and frequent contracting cycles discourage a diversified competitive market and create an exclusive community of participating contractors and an environment susceptible to manipulation.

To these ends, we have taken two significant steps. The first was a fundamental organizational change in the approval authorities for requirements generation and procurement decisions. These approval authorities have been diversified within the commodity directorates, as well as throughout the Center, to involve key staff and command offices. Day-to-day decisions are made by the appropriate responsible organizational element and are not vested in one person.

The second fundamental change was the implementation of an advance acquisition planning system. This system requires the corporate involvement of key line and staff offices in the generation of requirements. Individual items are grouped together in "family" packages, allowing for acquisitions that can incorporate quality and delivery considerations in the negotiation process. Innovative methodologies are applied as appropriate and all procurements are planned for some type of long-term contract. Source selection decisions now require the input of technical and quality advisors as well as business specialists. This process diversifies the input into, and makes more visible, the acquisition process. Equally important, it necessitates corporate involvement in our supply mission, drawing on the immense sources of talent and experience across the organization. This system will be automated shortly and will make our entire major acquisition program visible and accessible within the Center and our headquarters.

These major changes are the tangible result of effecting another significant organizational change. We have created a Senior Executive Service position for an acquisition professional to address and oversee the Center's entire acquisition mission. The Executive Director for Acquisition Management, who reports directly to me, has no line authority, but by virtue of his position, experience and expertise can bring significant management attention to bear on the acquisition process. As the Center's ultimate procurement policy maker, he has already launched a fundamental change in the way we do business and expanded and diversified the participants and decision-makers in the procurement process. These changes, as proven effective, will be institutionalized to create a responsive acquisition process which incorporates integrity and professionalism.

I am confident that we have learned the hard lessons of the Clothing and Textile fraud and mismanagement experience, and have effectively recovered over the past two years. I believe we have the tools in place to sustain efficient supply operations.

Now that I have addressed your expressed concerns with regard to Clothing and Textiles, I will proceed the Subsistence issues you identified in your letter of 13 February 1989.

AMERICAN BEEF

In view of the European Economic Community 's (EEC) decision to ban the importation of U.S. hormone-fed beef to Europe, we have evaluated the impacts of contingency scenarios for providing beef to Europe. My comments will first address troop issue beef and then discuss commissary resale items.

As you are aware, the Berry Amendment, annually made a part of the Appropriations Act, requires troop issue beef be provided from U.S. sources. Accordingly, all troop issue customers in Europe are supported with frozen beef purchased and shipped from CONUS to refrigerated warehouses in Europe where the beef is stocked for availability against individual customer demands. The beef is cut and packaged by CONUS vendors to meet the needs of a military food preparation/dining facility. I believe this support should continue based on existing status of forces agreements (SOFAs).

The current system for supporting European commissaries is by offshore acquisition of European carcass chilled beef by our field activity, Defense Subsistence Region Europe. This is in consonance with Armed Services Commissary Regulations which state: "Some products with short shelf lives such as fresh meat...are impractical to ship from the CONUS to overseas commissaries , and are appropriately procured from offshore sources." The Defense Subsistence Region Europe contracts require the vendors to deliver the beef directly to commissary stores on a frequency which is acceptable to their usage and store capacity. The stores cut and package the carcass into resale units.

Present offshore acquired requirements for U.S. commissaries are approximately 1,000,000 pounds of carcass beef per week. Cost of OSA carcass beef is approximately $1.41 per pound. Vendor transportation costs to commissaries are included in the price.

This system has been in existence since the early 1970's. Patrons as well as Service commissary management have been satisfied with the quality, price, availability and timeliness of the OSA beef products.

From February to July 1986, a side-by-side test of U.S. and OSA beef and pork was conducted at six Army/Air Force commissaries to determine customer preference. Patrons clearly preferred the lower priced OSA meat to the more expensive U. S. product on a five-to-one ratio.

If the procurement and use of OSA beef in European commissaries is not allowed to continue, there will be significant increased costs to the commissary patron and the U.S. Government. Commissary stores will have to be supported with CONUS beef and a major change in the logistics support system will be required.

- Commissary customers will pay $.40 to $.60 per pound more for U.S. beef. Over a one-year period, this amounts to $13,860,000 additional costs to Service families.

- Transportation costs to DoD will be approximately an additional $5,700,000 per year for containers to move the U.S. beef overseas.

- The Defense Stock Fund will require a one-time increase in obligational authority of $60 million per year.

- There will be an undetermined additional cost for refrigerated storage space. Services lack the necessary refrigerated space to hold greater than three to five days of chilled beef. Stores cannot accurately predict meat demands. Based on U.S. ocean carrier delivery schedules, a 7-day delivery schedule is the optimum we can expect; delays can be expected historically.

- Practical experience has shown shelf life of product may be acceptable up to 45 days under ideal transportation and storage conditions. Considering CONUS transportation and port hold time (5 days), ocean transit time (12 days) and delivery time (8 days), U.S. beef will have a maximum of 20 days shelf life remaining upon delivery to the stores.

- Due to extended surface delivery times to locations such as Turkey and Greece, there are locations we will be unable to support with U.S. beef unless airlift is used with concomitant increased cost.

Based on the significant increased costs to the U.S. taxpayer and the potential negative impact on the morale of U.S. forces and their dependents of exporting U.S. beef to Europe, continued procurement of OSA beef in support of the commissary stores is recommended.

OST TO EUROPE

In March 1985, the Defense Personnel Support Center (DPSC) and the Military Services began a concerted initiative to reduce the order-shipment-time (OST) from 90 to 55 days for delivery of semiperishable brand name subsistence items through Defense Depot Mechanicsburg, PA (DDMP) to European commissary stores. Simultaneously, we targeted the OST for sourceloaded direct vendor delivery shipments at 46 days, again a reduction from 90 days. To achieve these reductions, OST models were developed with eight distinct processing segments. The key to achieving the model OST goals was a reduction in vendor delivery leadtimes as well as timely ocean and in-country distribution movement. Although initially some shipments met the reduced OST goals, certain time segments of the model could not be consistently achieved. Most notably were late vendor deliveries to DDMP resulting in container surges which stressed the overseas transportation/distribution systems. Actual OST during the latter half of 1985 averaged 88 days for depot shipments and 70 days for sourceloads. In February 1986, the eight segments of the OST model were revised to establish new OST goals of 75 days for DDMP shipments and 60 days for sourceloads. A 14 day front end delivery window was established for sourceloads because we were convinced the potential was there to meet the original 46 day sourceload goal. A similar window was established for DDMP shipments except a 7 day window was added to allow for a more consistent depot workload and smoother van arrivals in Europe. Since the new model became operational in April 1986, except for some external, uncontrollable events which negatively impacted the pipeline either directly or indirectly, brand name shipments have been generally delivered on time.

Some external transportation problems have had to be resolved in our effort to reduce OST. Most notable have been the periodic port or transit strikes and the bankruptcy of U.S. Lines in November 1986 which caused several months of transportation disturbances and resultant late deliveries. The overall transportation system endured growing pains as new carriers were added, equipment shortages developed, and bi-weekly sailing schedules predominated. The Military Services documented lengthy in-country delivery times from the port of debarkation (POD) to the stores. It wasn't until mid-1988 that all segments of the model began to function as envisioned.

Other initiatives are ongoing to further reduce OST to Europe and improve brand name support. These include a joint DPSC/Services/American Logistics Association program to shorten vendor delivery times, the tightening of van booking and reporting procedures to maximize lifts on scheduled sailings, and establishment of an eight day incountry delivery time standard by the Military Traffic Management Command and the Military Sealift Command. Vendor responsiveness has increased as highlighted by the Proctor and Gamble Company initiative to consolidate their east coast warehouses, thus permitting more sourceload shipments for timely overseas support.

With respect to systemic improvements, DPSC is pursuing an initiative with selected vendors to transmit orders and shipment information via Electronic Data Interchange (EDI) which will reduce processing times. A forthcoming expansion of our Defense Integrated Subsistence Management System (DISMS) will increase the potential for multi-stop sourceload shipments, thus reducing overall average OST to Europe.

Our efforts to reduce the OST to Europe have been moderately successful and are ongoing. Some of the required changes are long term and significant resources have been invested. As these changes are successfully implemented, selected reductions in the number of days required to replenish the overseas commissary stores may be realized. Our goal is to meet the established OST timeframes of 75 and 60 days on a long-term, consistent basis and seek such other minor modifications that may be possible.

DLA POLICY ON DEBARMENT AND SUSPENSION UNDER DPSC SUBSISTENCE BULLETINS

The DLA policy is designed to balance the rights of the suppliers and of the commissary customers to obtain desired brands of food products against the Government's need for protection from contractors who lack integrity. We are sensitive to the impact that DLA's actions can have on the commissary supply system and have changed our policy to ensure that this impact is minimized during the time period prior to an official Agency decision regarding a supplier's integrity. We are, however, directed by statute to do business with responsible contractors.

Upon a recommendation by DPSC for suspension or debarment, all commissary users will be notified by electronic means that the recommendation has been made, the reasons for the recommendation, and a point of contact at DPSC for questions regarding the recommendation. Commissaries will be free to place contracts using the Bulletin based upon their own determination of the contractor's responsibility. DPSC will not place orders for DSR-Europe without the prior coordination of DLA Headquarters in accordance with current Agency procedures. Otherwise, the DPSC decision to recommend the contractor for suspension or debarment represents their determination of nonresponsibility. Upon a decision by the DLA debarring official to propose the contractor for debarment or suspension, the DPSC Bulletin will be cancelled.

Where the activity or product of a Bulletin contractor is determined to represent an imminent hazard to the customer, notifications to commissaries will be made under an All Food Access System Alert. Such notifications, when required to protect the public health, shall be exercised independent of any associated suspension or debarment decisions in accordance with established procedures.

Mr. Hutto. Thank you very much, General Voorhees.

I realize that this happened before you folks came on the shift, but let me ask you about the military involvement. You are the Commander of the Defense Personnel Support Center. In that position do you wonder why the Commander did not know a little more about what was going on?

General Voorhees. Yes, 20-20 hindsight is good. I am not surprised, having been in a number of procurement situations including the research and development area where there are a large number of long-term civilians as well as military folks in key positions. I am not surprised that there is the assumption that the system will take care of itself. I am not surprised with what I call the best engineer syndrome. We develop confidence in long-term civilians who have over 30 years proven technical expertise and built the confidence of commanders and managers that work with them. Frank Coccia to whom I was exposed for about 6 months exuded confidence.

Mr. Hutto. He was a pretty smooth individual?

General Voorhees. He was, well depending on who you talked to. He was smooth in the sense of certainly developing confidence of senior officials. For those who worked under him, he was a very hard taskmaster. He demanded performance. He understood the business very well. But at the same time he was manipulative, and those above made the assumption that Frank would take care of the situation, and those below dared not take exception to the decisions that Frank made.

Mr. Hutto. I guess it is a natural thing for the boss to have confidence and trust in his employees, especially if they show evidence of being efficient. Having said that, I would assume that since this has happened you probably look a little more closely. Do you have recommendations on how the military, since you have a relatively short tenure there, can handle this? I am not speaking just about the DPSC, but I suspect in many other facilities.

General Voorhees. Yes sir, I think that the comment made by Mr. Dennis was totally appropriate. While we have every right to expect the performance of those beneath us and to make some assumptions with regard to their competence, we also have the right and the responsibility to demand accountability of everyone, regardless of rank and position. I reserve the right to ask questions, and I expect everybody who works with me to do likewise.

Institutionally, we talk about diversifying our decision process. There are a lot of low-level decisions that were made by Mr. Coccia. If they had been made at the proper place by the proper person, it would have precluded some of the situations that we got ourselves into.

Mr. Hutto. What would have been the right place and the right person?

General Voorhees. At almost every level you can name in the organization, beginning with the very low-level contract administrator and the supply person, the item manager who on a daily basis makes hundreds of decisions compared to the two or three that are supposed to filter to the top. Those decisions——

Mr. HUTTO. Excuse me. Why were the decisions made? As I understand you, they were probably made by the wrong people. Was that by regulation, or do we need regulations on some of this?

General VOORHEES. Quite the contrary. Had they been done according to regulation and expected procedure then most of those decisions would not have gravitated to the top. When I say gravitate, I do not believe they gravitated at all, I think they were forced to the top by Mr. Coccia who knew the system very well. I think that some individuals who initially exercised their responsibility and attempted to make the decisions at the appropriate levels were then brought into the reality of the senior person wanting to manipulate and make those kinds of decisions and force the issues.

Frank was an excellent micro-manager. He could ask six questions and intimidate an item manager very quickly. So over time those people who at the grass roots would ordinarily make mundane, everyday, routine decisions found themselves going forward for decisions or found their decisions being reversed with some fervor, and they learned very quickly that they were not going to make those routine decisions.

Mr. HUTTO. General Voorhees, how long have you been in your present position?

General VOORHEES. Two-and-a-half years.

Mr. HUTTO. Mr. Molino, how long have you been at DPSC?

Mr. MOLINO. I've been there about 3 years now.

Mr. HUTTO. Did you know Mr. Coccia?

Mr. MOLINO. I was with him for about a year.

Mr. HUTTO. Did you suspect anything at all like this?

Mr. MOLINO. By that point there was a strong undercurrent about Frank.

Mr. HUTTO. So the investigation was underway then?

Mr. MOLINO. It was in process. I personally was not aware that it was in process, but it was in process.

Mr. HUTTO. General Voorhees, last year DPSC awarded contracts for clothing and textiles totalling over $1.2 billion. I understand, and I believe you testified, that over 70 percent, or over $700 million, was set aside for small businesses. Further, while there are about 35,000 clothing and textile producers in the United States and a bidder's list of more than 1,400, 55 contractors received the bulk of this business. Why did such a small number of firms receive this business?

General VOORHEES. I think there are a couple of principal reasons. Number one, with respect to the small business prevalence, the nature of the C&T business is such that about 70 percent of the people we do business with are in fact small businesses.

The mode of doing business, as was mentioned earlier, the predominance of specifications is a mixed blessing. Over the past 10 years or so we became more sensitive to rising problems of quality in the product. The services necessarily thought that one of the avenues for tightening quality assurance was to tighten the specifications. In point of fact, in hindsight, we see that tightening the specifications was a two-edged sword. While we knew definitively what we thought we wanted and knew how to test for it, the people we were dealing with became smaller in number because number one, we were using outmoded specifications, specifications that called for equipment which in some cases had been scrapped by commercial business for the past 15 years. We were getting into great detail in the specifications.

Mr. HUTTO. When you say great detail, are you talking about a lot of pages?

General VOORHEES. A lot of pages, some very complex language, some very subjective criteria.

Mr. HUTTO. Did lawyers draw that up?

General VOORHEES. I can't blame that on the lawyers.

[Laughter]

No, we have spec preparing activities that are associated with the research and development business and people who are very knowledgeable in the trade.

Mr. HUTTO. I was just kidding about the lawyers, but on the amount of specifications, I have heard of some Government specifications that were the size of a book on one small item. Is that true?

General VOORHEES. Yes, sir.

Mr. HUTTO. It seems to me that is ridiculous. How can we cut that out?

General VOORHEES. We are trying to do just that. There are a number of things that we have done with industry, and I must say in all fairness, this did not just happen as far as our awareness of the difficulty with specifications and trying to work with industry. The situation we got ourselves into with regard to supply availability forced the issue of how do we get more people involved in the industrial base, and how do we facilitate more rapid movement of material into the supply pipeline. So in dealing with the contractors we are now dealing with them more in line with commercial business. We are trying to the maximum extent to use commercial item descriptions and this sort of thing which would facilitate not only the more rapid response from the contractor, but also to gain the confidence of other contractors who have not done business with Government before.

Mr. HUTTO. If an item is needed, is there any shopping at all to see if it's something that could be bought off the shelf? Do they shop around? Colonel Caputa, maybe you can answer that.

Colonel CAPUTA. Yes, sir. We, as an example last year spent some $13 million on commercial items. As the general says, this is the way collectively we are all seeking to go. There were some less-than-successful experiences in the past that, for one reason or another, discouraged the services from pursuing commercial items. We have long since gotten over that hurdle. As the general says, this investigation has provided a motivation for change, sir. There are selected items now that the services have given us authority, if you will, to go out and buy. For example, the watch cap for the Navy, and shooter's jacket for the Marine Corps.

So I am excited, sir. We are starting to see some significant evidence that the services' specification preparing activities are moving away, when appropriate, from the rigid design specification.

Mr. HUTTO. There should be some savings there, too, it would seem to me.

Colonel CAPUTA. Yes, sir.

Mr. HUTTO. General, how did you say the specifications were—who draws up the specifications?

General VOORHEES. Our specifications originate with the research and development activities. In our case there are R&D outfits at Natick just west of Boston that function for both the Army and the Navy, and we have a comparable organization for the Air Force.

We maintain liaison with them, we have their people co-located with us at DPSC to effect liaison. There has been obviously, a great response to recent incidents and therefore there is a great effort toward standardization as well as commercializing that.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. Mr. Molino, I think you might want to answer this question because you and I have communicated on this. It really will be a short series of questions.

It concerns me that perhaps there still might be some chumminess going on that may not rise to the level of fraud and criminal activities in the past, but I have recently had a situation where a duffel bag manufacturer in my district, which has been satisfactorily providing duffel bags for many years, lost a contract in a negotiated bid situation where the bids were requested, solicited over a year before they were actually ever awarded. Once they were finally awarded, they were awarded to a previous contractor who had defaulted on the previous contract and who still owed over $400,000 to suppliers from that contract. The difference in price between the two duffel bags was about three cents a duffel bag.

I wonder if you could explain, if there was not some chumminess involved, how a supplier who had defaulted previously, who still owed suppliers significant sums, was found acceptable in the first place to even be included in the negotiated group of acceptable bidders?

Mr. MOLINO. The effort you're talking about was one of our initial efforts to change our business practices. As one of our first efforts, we had a learning process, and I'll tell you quite frankly it took us a long time. We had to train our own people, and there was difficulty in trying to understand how we were moving away from a strictly sealed bid, low-price kind of environment, to negotiating technical and production elements in addition to price.

We now discuss specifications in terms of produceability before we award the contract rather than afterwards when we have performance problems. So this was one of our initial efforts. It was a process that's referred to as the low cost technically acceptable approach in which the Government's mandatory requirements discussed those and those firms who then are determined to meet all of our mandatory requirements are awarded the contract on the basis of low negotiated price.

In the particular circumstance that you are talking about, the firm was found technically qualified——

Mr. LANCASTER. How could they be found technically qualified when they defaulted on their last contract and still owed suppliers over $400,000 for that abortive attempt?

Mr. MOLINO. As I understand the circumstances on that, the default on the previous contract, was for circumstances beyond the contractor's control. The fact that a contractor fails in one item does not necessarily mean that they cannot produce it again. You have to go behind the circumstances.

As I understand it, the contracting officer looked into that in some detail, made a determination that the poor performance on the previous contract was for circumstances beyond the contractor's control, and I think they were related to sub-suppliers' failures.

Mr. **Lancaster**. If you had not been paid $400,000 you would not continue to supply either, would you?

Mr. **Molino**. I think the sequence of events was the non-performance by the sub precipitated the non-payment. So they did not supply the items and therefore they did not get paid.

Mr. **Lancaster**. Then why were they owed the $400,000 if they had not supplied the materials?

Mr. **Molino**. I think the circumstances were, and I can get back to you with more details if you wish, that the prime refused to make the payment because the sub did not provide the material, so therefore there was a payment problem and a legitimate dispute between the prime and the sub.

Mr. **Lancaster**. Why did it take a full year to sign a contract?

Mr. **Molino**. As I mentioned to you, this was our initial effort to try a different business practice——

Mr. **Lancaster**. How long——

Mr. **Molino**. It did take us longer than usual, and it was a learning curve.

Mr. **Lancaster**. How long is it taking now to sign a similar contract?

Mr. **Molino**. We have several initiatives now that we are trying. That was one of our first, as I explained to you. Some of them we are targeting for as few as 94 days. One is a commercial buying combined experiment which is using a negotiated technique. So we are trying to establish time frames that will be responsive.

Mr. **Lancaster**. Does it take Sears 94 days and up to a year to negotiate a contract with Hanes to provide underwear for Sears?

Mr. **Molino**. No, and it does not us either.

Mr. **Lancaster**. General Voorhees, you discussed the need among business, which has been expressed for longer term contracts so they have an assurance that they will have business to do, yet also the need for spreading the production base. As I understand it, what you are doing is dividing the pile up and providing different suppliers with parts of the contract? Is that how you are addressing that problem rather than limiting it to a small number of suppliers with long-term contracts?

General **Voorhees**. There are a couple of things that are operative. We have the multi-source situation where we take a requirement and break it up into two or more contracts, to involve two or more contractors that will work concurrently. We also have the multi-year which is simply a single year contract with options or multi-year procurements contract in which the contractor, although the total requirement by year may be less, he has the assurance with good performance that he will have continuing activity. So the two of those are combined.

As far as cutting up the pie is concerned, at this point in time with all the factors involved with both quality and schedule performance involved, I think there is going to be less proclivity for people to think that just the low bid getting inside the door is going to keep them in business, and that is precisely the message we are trying to give them.

Mr. LANCASTER. Do you feel you are having any success in broadening the production base?

General VOORHEES. No question.

Mr. LANCASTER. I guess, Colonel Caputa, you will need to answer this question since I believe it falls within your jurisdiction.

This investigation and ultimate criminal prosecution dealt with just clothing and textiles. What have we done to assure ourselves that similar fraud or criminal activity does not exist in the other divisions? The subsistence and medical items?

General VOORHEES. Colonel Caputa has the C&T directorate, Captain Kuhns has subsistence.

Mr. LANCASTER. Whoever wants to answer.

General VOORHEES. We are taking C&T only as an illustration of what could have happened elsewhere, and we are making the assumption that the same kinds of situations could exist or might exist now, and therefore the lessons learned are not only being passed out to DPSC, but for the Defense Logistics Agency itself. There are lessons learned being put together by our Fraud Remedies Unit.

Mr. LANCASTER. Excuse me, General. I can appreciate what you are doing for the future, applying lessons learned to make sure it does not happen in the future. But what I want to know is, what have you done to assure yourselves that this sort of corruption was not in the other divisions? The investigation did not focus on them. Have you assured yourself that that corruption did not exist throughout the command?

General VOORHEES. I do not know how far back in history you want to go. If you are talking current situation, we have ongoing——

Mr. LANCASTER. I am talking about at the same time the fraud was going on in one division, what have you done to assure yourself that it was not going on in the other divisions in the recent past? Do not go back in history and do not talk about future. I want to know was that corruption going on at the same time in your other divisions and simply not ferreted out? What have you done to assure that that was not the case?

General VOORHEES. I became very close to Mr. Ed Dennis and also Mr. Wayne Davis who was the former FBI Chief in Philadelphia. There were ongoing surveillance cases and investigations with regard to the other commodities as a result of contacts made by our people and so forth. This is an ongoing thing. This goes on all the time.

There has not been any indication of anything of the nature of the C&T fraud either in medial or subsistence, but we make no assumptions about that on a daily basis. We use our hotline, we use whatever sources that are available to us to maintain that contact with DCIS.

Mr. LANCASTER. You have indicated that you are simplifying the specifications for future contracts. What are you doing otherwise to minimize the need for consultants in dealing with a complex procurement system?

General VOORHEES. To be honest with you, we have not approached the subject of consultants as a specific target simply because we believe the individuals were the problem rather than the functional entity of a consultant. Those individuals were interested in pursuing criminal activity and whatever you called it, the same individuals probably would have pursued it.

Mr. LANCASTER. Do you feel the process is sufficiently simple that you would not need a consultant in order to access the system?

General VOORHEES. I think the system as it currently exists allows a number of contractors to work without consultants.

Mr. HUTTO. Mr. Hefley.

Mr. HEFLEY. No questions.

Mr. HUTTO. Mr. Dyson.

Mr. DYSON. Thank you, Mr. Chairman.

I would like to sort of pick up where the Chairman left off in how this whole system worked. As I understand, when your providers became less in number, you in a sense tightened up the specifications because you were finding that quality suffered and obviously you were trying to control that, and in fact what happened I guess is that then your number of providers became even more reduced, is that correct?

General VOORHEES. I would not tie the number of providers to the quality.

Mr. DYSON. For some reason or other you said that quality had begun to suffer, and I got the impression that was about the time that there was a reduction in the number of people who were providing this.

General VOORHEES. I think those were chronologically coincident, but I do not think that is a cause and effect thing. I think quality overall was on the decline. Along with that, as we saw quality problems we attempted to assure quality through more rigid specifications. The incidence of more rigid specifications then drove some people away in terms of——

Mr. DYSON. Now what you are trying to do is to change that. You are trying to get away from that.

General VOORHEES. Correct.

Mr. DYSON. I think you said you are trying to be more in line with commercial businesses, but yet in one of the questions here that our professional staff here has provided, I would gather that maybe perhaps that is not happening.

The question goes like this. It says, I understand that military specifications are used to procure all but 7 of the 8,000 clothing and textile items managed by the DPSC. Again, I realize you said you are trying to get away from that. Where are we today? Are we at 100, 1,000? That is quite a thing for you to pick up in what, you have been there a year and a half?

General VOORHEES. Two years now.

Mr. DYSON. Where are we?

Colonel CAPUTA. I have been there 40 months, sir, in clothing and textiles, and we have gone from four to eight items. But as I mentioned earlier, sir, we have an ongoing effort with each of the services to increase this number. The Navy is introducing three new items here; the Army has presented two items for which we are soon to procure against a commercial description. We win, sir, if we just move away from a design specification. A design specification tells the manufacture how to make the item. A performance specification simply says make me an item that will do this. Industry will gladly take a specification, if it be a performance specification. Do not tell Van Heusen who makes 50 million shirts a year how to make a shirt.

Mr. DYSON. OK, how far are we going. Where are we? How well are we doing? Obviously we are going to save some, as the Chairman indicated, if we get to performance as opposed to the other. Your example was good. You do not want to tell Van Heusen how to make a shirt. He probably is certainly making a lot more of them and a lot better than the military is going to do.

Colonel CAPUTA. I am happy to report that Van Heusen is now under contract for two shirts.

But to answer your question, sir——

Mr. DYSON. Two types?

Colonel CAPUTA. Two types, in the hundreds of thousands in those two procurements.

To answer your question in trying to quantify where we are in terms of moving away from the design specification, I can take 15 or 16 items that readily come to mind. We had an aborted attempt with one of the services, the definition of what we really wanted was not as precise as it should have been. As a consequence that slowed us down a little. But we are now ever aggressively working with the services, and so we recognize the need for and the benefits of pushing on with the effort.

Mr. DYSON. Who made these decisions? Who decided what type of men's T-shirt, or what I call an undershirt, would be suitable?

Colonel CAPUTA. Each service has its own spec-preparing activity. We do not write specifications at C&T.

Mr. DYSON. So each of the services——

Colonel CAPUTA. Write their own, sir, in response to the user-determined requirement.

Mr. DYSON. Why could not the Army write one for the Navy or the Navy write one for the Air Force? Before we get too far along here, I can certainly understand that if you are going to be at Fort Greeley you will have obviously a completely different requirement than you are going to have at say the Aberdeen Proving Ground or down at Panama. But it is the same type of individual, and I do not think it is going to matter what kind of suit he is wearing, what kind of military suit he is wearing. Do you see my point?

Colonel CAPUTA. Yes, sir, I do see your point.

Mr. DYSON. But we have not changed the system.

Colonel CAPUTA. No. The services recognize that, at least at the highest levels. This is being forced down through the services now. There is a lot to be gained in terms of standardization. Limiting the proliferation of sizes and doing other smart things.

Mr. DYSON. I know you probably wear a light brown T-shirt, and the captain next to you probably wears a white, but other than the color, what is the difference? Except that you——

Colonel Caputa. That is where our major effort is going right now, namely standardization.

Mr. Dyson. How long does that take? When will we see some——

Colonel Caputa. It is interesting that you ask.

Mr. Dyson. I would think it would take all of a week.

Colonel Caputa. That is what a service senior officer said when I talked with him and suggested to him that perhaps there is no need to stock both boxers and briefs. He agreed; however, many participate in clothing decisions, and it does take time.

Mr. Dyson. I am relieved to know that he is passing that issue on for somebody else.

Colonel Caputa. We met last week, sir, with a new group formed under the Flag Officers Council. These are generals and admirals of the services who have a significant interest in improving the process of fielding military clothing and individual equipment.

Mr. Dyson. Don't tell me there are generals and admirals making these decisions.

Colonel Caputa. Oftentimes so, sir. They have established a committee of colonels who just met at DPSC 2 weeks ago and the express purpose of that meeting, sir, was to standardize where at all possible, and I can report for the first time in 40 months the services together have standardized on items that are already in the inventory.

True, they are not the most significant items, but it is a major start, sir. Disposable coveralls. We used to have three different designs, all white, all doing the same thing but having different bells and whistles on them. The services are now motivated to change as a consequence of the opportunities that were provided by the investigation.

You mentioned the T-shirt. As you know, the Marine Corps at the capricious whim of a commander, we went from a V-neck back to the crew neck, an example of the proliferation of different items we seek to control. My point is, we are one service away from agreement on what constitutes a white undershirt. We are one vote away from what constitutes a sock cushion sole heel. True, it has taken a long time sir. We just have to do it smarter, better, and faster; and the winds are blowing in that direction.

Mr. Dyson. Colonel, you are not convincing me, but go ahead. I am at least being entertained.

[Laughter]

Mr. Dyson. Can you answer that question at some point for the record? I see you cannot do it right now, but where are we in these procurement, as related to these military specifications. Again, this question that was provided by our staff, I assume they have some information and believe it to be correct. Since 7 of the 8,000——

Mr. Hutto. That is a good point, Mr. Dyson. That would be helpful to the committee if you could give us a statement for the record on the progress that you are making.

Colonel Caputa. Certainly.

[The following information was received for the record:]

In response to the committee request for a statement for the record regarding the progress being made to convert design specifications to simpler documents to procure against, the following is provided.

In managing approximately 8,000 generic items of clothing, textiles, and individual equipment, DPSC uses 3,100 procurement documents to purchase the approximate 5,100 items we centrally stock and issue to meet customer requirements. Approximately 1,000 of the 8,000 items are not routinely stocked but instead are acquired through local purchase procedures by the services. These 1,000 or so items are essentially all purchased off the "commercial shelf" and include such things as briefcases, some safety equipment, bedding and linens, and athletic equipment.

DPSC's preliminary review of 3,100 procurement documents reveals 363 likely candidates for commercial item descriptions (CID's) or other equally less rigid vehicles to replace design specifications. CID's have already been developed for an additional 67 items.

In addition, there are some 100 other items defined as military distinctive that are currently procured against a design specification that appear to be appropriate for performance specification consideration.

In summary, after excluding those items that are genuinely military distinctive, for example, the 1342 specification-type procurement documents for insignias and medals and those personal protective items—helmets, body armor, and chemical protective overgarments—to name but a few, DPSC estimates that approximately 463 specifications can be converted to more streamlined acquisition vehicles. Considering that the 463 includes many single specifications that govern multiple end items, for example, a single spec applies to 6 different men's trousers, the potential for relief from rigid design specifications, in terms of end items, is even greater.

In fiscal year 1988 DPSC used 11 commercial-like descriptions to purchase 14 items at a dollar value of $13.5M. Moreover, procurements with recently completed CIDs will soon be made for a variety of items including handkerchiefs, drawers, and undershirts (Army); all weather coats, sweaters and knit watch caps (Navy); climbers boots (Air Force); and general purpose trunks and shooter's coats (Marine Corps). CID's for socks, thread, and balaclava hoods are currently being reviewed and should be ready for procurement action at time of the next required buy.

For the past year, DPSC has taken a proactive role in the identification of commercial item candidates and in assisting the service specification preparing activity in writing requirements. DPSC is prepared to assist the services in hastening the process even further.

Mr. HUTTO. Could you tell me how long the specifications are for a T-shirt?

Colonel CAPUTA. We have one in our book here for denim trousers and that runs some 80 pages.

Mr. DYSON. For a T-shirt?

Colonel CAPUTA. Sir, again, it is a design specification.

Mr. DYSON. Will you come with me some day on my way home to southern Maryland and I will stop in at Giant Food. That is where I buy some of mine. I don't give it much more thought than I do some of the things I am buying as I am going down the aisle.

Eighty pages?

Colonel CAPUTA. Yes, sir. They run 50 to 60.

Mr. DYSON. I am overwhelmed.

Mr. HUTTO. Thank you.

Mr. Leath.

Mr. LEATH. Thank you, Mr. Chairman. Gentlemen, I apologize for being late. I would have loved to have heard your testimony. I had a budget committee task force on defense, a staff meeting we were trying to set up.

General Voorhees, in your prepared statement, however, you talked about the ban by the European economic community on U.S. hormone-fed beef, and the fact that this may result in the U.S. reciprocating and stopping the purchase of European beef for commissaries. Let me add a footnote there and tell you that you can underline that "may" very heavily there if this continues, being one whose district has probably more cows in it right now than any in the United States. I have a very viable interest in that.

I think you would agree that U.S. beef is the finest beef in the world, hormones or otherwise, and that the pledge of a commissary system is to provide our military personnel overseas a similar quality of life to the United States.

You stated that the Defense stock fund would require an increase in stock fund obligation of $60 million, which I think is extremely excessive, so I would like you to address that. Does this assume that you will be purchasing all the annual requirements for beef at one time? Does this assume that you have no money currently committed up front to do so?

General **Voorhees**. The statement with regard to the increased cost, the estimation for the stock fund was just simply for initial acquisition. That is the per annum cost. It would not necessarily be up front. It could be, if it were disbursed out through the year that would suffice. It only represents that delta between what we are currently buying out of the stock fund and what we would be if we went to the new beef arrangement. That is the per annum delta that we estimate right now.

There would also be a cost relative to transportation which we have assessed at somewhere around the $6 million per year figure. I am sure if, by public policy, we were forced to do that, that would not represent a great problem.

We are simply in the position of trying to give service to the GI and his family overseas, so we simply point those out as considerations rather than constraints on our part. We are prepared to do whatever is required by public policy.

Mr. **Leath**. With the current dollar situation as far as the probably better than 50 percent devaluation of the dollar in Western Europe, particularly in Germany and some of those countries. In the Far East isn't U.S. beef more competitive now than some of your foreign sources?

General **Voorhees**. The only foreign source we are really talking about is off-shore there in Europe. Our current estimate, and I do not profess to be the authority on current pricing, our current estimate is a delta of about 40 to 60 cents per pound, and that is the basis for our figures.

Mr. **Leath**. About 40 to 60 cents a pound more expensive?

General **Voorhees**. Correct.

Mr. **Leath**. U.S. beef would be?

General **Voorhees**. Correct.

Mr. **Leath**. I would sure like to see the justification for that. I find that difficult to believe. Do you have a justification you could provide me for why you assume that?

General **Voorhees**. Again, I am not the expert on the subject. My understanding is that specific to Germany, that the German Government is subsidizing their off-shore product. But why, what the rest of the ingredients are in that cost figure, I cannot give that to you.

Mr. **Leath**. The German Government is subsidizing the beef that we buy?

General **Voorhees**. The off-shore beef.

Mr. **Leath**. From their producers? How much are they subsidizing it?

Captain **Kuhns**. Sir, we had some of our people over in Europe go and price the European beef on the open market in Germany and they said it would have been about $3.60 or $4.00 a pound comparably. It is very hard to get an exact comparison because the cuts are different and so forth. It looks to us that the cost of the U.S.——

Mr. **Leath**. Before you go any further, a pound of carcass is a pound of carcass. We are not talking about cuts. I assume you do not buy it by sirloins and ribs and ribeyes, that you buy it by the carcass. What is the difference between the carcass weight of the beef, I find it difficult to believe from the General's statement that it is 40 to 60 cents a pound more expensive.

Captain **Kuhns**. We were trying to get a comparison, sir, of retail cuts as to what they would have to sell for to our military patron in the store. That is where we come up now as beef sold for about $1.41 per pound for the off-shore product. Compared to on the open market over there, that same cut in the same quantity, would be about $3.60 a pound.

Mr. **Leath**. So you are telling me the German Government is subsidizing $2.20 a pound for beef they sell to us?

Captain **Kuhns**. Yes, sir. The contractors that we are buying from over there are able to sell it at a much lower price to the U.S. than they would sell it in the German commercial stores.

Mr. **Leath**. The staff can refresh me, and Dr. Cofer, feel free to step into this discussion any time you want to, but we were told in August when we spent a week in Germany at the AFRC centers, and correct me if I am wrong, Dr. Cofer, by the management of some of our facilities over there that we very desperately want to get U.S. beef because obviously it tastes a hell of a lot better than anything you can buy anywhere else in the world. We are the only place in the world, as far as I know, that grain feed our beef. Most of the rest of it is fed with garbage or grass-fed, which makes a tremendous difference in the taste of it. Unless I am not recalling it, Dr. Cofer, we were told that we could not only buy U.S. beef cheaper, but they greatly desire to have it to serve in the Armed Forces Recreation Centers over there. So I find this sort of conflict——

Mr. **Cofer**. When we went over and looked we were talking about all the hotels buying through DPSC, that they do want American beef. But when the delegation did visit commissaries and talked to people there, we found that the only product that was a lot cheaper was like hamburger and stew beef. But the prime rib, the steaks, and the better cuts were equal if not cheaper as a result of the American product.

I think there is one thing, General, that we have to look at very carefully, and you and I spoke about national policy. The commitment of the Congress to the military patron overseas, as Mr. Leath has stated, is to give those Americans overseas the same quality of life that they would have here in the United States. That is our commitment. If you go to Fort Bragg or to Germany or any place, they should have the same quality of life.

Now we were in Korea, and we get American beef in Korea that is top quality, but we cannot get it to Germany. We have a lot more troops in Germany.

On top of that, when you talk about the 41 cents a pound difference that it will cost the GI, I recognize that to be the case. But the problem is that prices were so low over there that they got the edge. We are saying we promise you the prices that you will get here at Fort Belvoir, and we do that on other products. So the price differential I think is something that may not be really germane as determined by national policy.

But I think Mr. Leath is correct, and we would like to see some data from you in terms of the cost per pound American versus European at a specific date.

Captain KUHNS. Yes, sir, we will get that info. The price we were using was an overall comparison. You want by specific cuts such as the——

Mr. COFER. We are talking about sending over boxed beef. Let's measure apples to apples. If we are buying carcass, let's compare it at that level. Because we really do not know what, the prices of beef is different versus cuts.

Captain KUHNS. The prices we gave you in the testimony were by cut.

Mr. COFER. Let's get it how we buy it. If we buy carcass let's compare American carcass to their carcass, and if it's boxed beef let's compare our boxed beef to their boxed beef.

Captain KUHNS. I understand, sir. My difficulty will be, we will not be able to ship carcass beef over. We will have to ship boxed beef.

[The following information was received for the record:]

In response to congressional requests for a price comparison of U.S. and European beef, it has been determined the average acquisition cost of U.S. carcass select beef was $1.03 in January, $1.07 in February and $1.05 to date in March 1989. For the same periods, the cost of European equivalent carcass beef in Europe is reflected in the following 2 March 1989 sample of retail prices paid by commissary patrons at McGuire AFB in CONUS and Ramstein AFB in Germany:

Item	McGuire price	Ramstein price
Sirloin steak	$2.50	$1.49
T-Bone steak	3.62	2.79
Tenderloin roast	5.82	4.95
Tip roast	2.33	1.68
Ribeye steak	4.36	2.99
Ground beef (82 percent lean)	1.65	1.24
Ground beef (75 percent lean)	1.34	.99
Cubed steak	2.50	1.69

On 8 March 1989 a further comparison of prices paid for like items was done for Andrews AFB in CONUS, Ramstein AFB in Germany, and Lakenheath AFB in England with the following results:

Item	Andrews AFB	Ramstein AFB	Lakenheath AFB
Ground beef (75 percent lean)	$1.29	$.93	$1.01
Ground beef (82 percent lean)	1.49	1.15	1.41
Stew beef	2.30	1.59	1.49
Cubed steak	2.99	1.49	2.93
T-Bone steak	3.59	2.79	2.97
Porterhouse steak	3.64	2.80	3.02

Item	Andrews AFB	Ramstein AFB	Lakenheath AFB
Bottom round roast	2.85	1.69	2.52
Rib steak w/bone	2.95	1.79	2.11
Eye of round roast	2.99	1.79	2.85

It is difficult to compare retail cuts directly since CONUS beef is procured in a boxed beef form while European commissaries have butchers who prepare cuts from carcass beef.

Mr. LEATH. One other statement in there, General, that I thought was kind of intriguing and I thought you might expand on. You said that providing U.S. beef would have a "negative" effect on morale. How would providing U.S. beef have a negative effect on morale?

General VOORHEES. The only parameter we are discussing there is not the quality of the beef, but our perceived difference in pricing.

Mr. LEATH. So from a cost standpoint you are assuming that if the price went up, military patrons overseas would not purchase U.S. beef.

General VOORHEES. Yes.

Mr. LEATH. Thank you very much. I have no more questions.

Mr. HUTTO. Thank you very much, Mr. Leath.

Gentlemen, we appreciate very much your testimony here today. We realize this was not on your shift where the fraud took place and all the corruption, but nonetheless, we know you are working to try to correct some of these things, and we appreciate that effort.

But some of the things that have been taking place are things that we cannot tolerate. I have heard about these huge numbers of pages in specifications on little items that make no sense. You cannot sell that to the American people. I know you have to work through the bureaucracy, and you have specification people in the Army and the Air Force and all the different services; but you are at the top and you are the leadership. We need to hear from you on what we can do. We need to cut things like that out.

How can a small businessman who might be making a T-shirt go through 80 pages? I know some of them are even more voluminous.

Mr. LEATH. I would like to see that. I cannot imagine how you can even write 80 pages.

Mr. HUTTO. Can you provide for the record the specifications on T-shirts to us?

Mr. DYSON. I assume that is double spaced.

Colonel CAPUTA. There are pictures too.

Mr. HUTTO. If you would provide that and maybe a few other samples for us.

MIL-U-44096A
AMENDMENT-1
9 DEC 1987

MILITARY SPECIFICATION

UNDERSHIRT, MAN'S, (QUARTER-SLEEVE)

This amendment forms a part of Military Specification MIL-U-44096A, dated 17 September 1985, and is approved for use by all Departments and Agencies of the Department of Defense.

PAGE 2

2.1, under "SPECIFICATIONS, FEDERAL": Add "A-A-50083 - Bag, Plastic, Folded Garment".

Under "SPECIFICATIONS, MILITARY": Delete "MIL-T-43548" and its title and substitute:

"MIL-L-35078 - Loads, Unit: Preparation of Semiperishable Subsistence Items, Clothing, Personal Equipment and Equipage; General Specification For
MIL-T-43548 - Thread, Polyester Core: Cotton-, Rayon-, or Polyester-Covered
MIL-T-44193 - Thread, Polyester, Textured"

Under "STANDARDS, MILITARY": Add the following:

"MIL-STD-731 - Quality of Wood Members for Containers and Pallets"

PAGE 4

3.2.1.7: Delete and substitute:

"3.2.1.7 Colorfastness. The finished dyed base cloth and finished dyed collarette cloth shall show colorfastness to laundering (after 3 cycles), and perspiration, either equal to or better than the standard sample (see 6.3); or at least equal to a rating of "good". Fastness to crocking shall be either equal to or better than the standard sample or shall have an AATCC Chromatic Transference Scale Rating not lower than 3.5. Fastness to light shall be either equal to or better than the standard sample; or shall show not less than good fastness to light after 40 hours of exposure. Testing shall be as specified in 4.2.1."

AMSC N/A

FSC 8420

DISTRIBUTION STATEMENT A. Approved for public release; distribution is unlimited.

PAGE 5

3.2.1.9: Delete the table and substitute:

"Wavelength (nanometers)	Reflectance (%)		Wavelength (nanometers)	Reflectance(%)	
	Max.	Min.		Max.	Min.
600	20	12	740	62	20
620	20	12	760	65	20
640	20	12	780	68	20
660	26	12	800	71	20
680	35	15	820	74	20
700	46	20	840	77	20
720	56	20	860	80	20"

3.2.2: Delete the second sentence and substitute "As an alternate, cotton, rayon, or staple polyester covered, polyester core thread conforming to ticket number 100, 2 or 3 ply of MIL-T-43548 or type I, class 1, 18 approximate tex conforming to MIL-T-44193 may be substituted for the ticket numbers 70 and 30 cotton thread."

3.4, line 3: Delete "even" and substitute "event".

PAGE 8

Table I, operation 4: Delete title and substitute:

"Finish collarette and attach combination label."

Operation 4a, line 4, after "seam.": Add "Catch label at center back with the size marking to the front of the undershirt."

Operation 4b, line 4, after "seam.": Add "Catch label at center back with the size marking to the front of the undershirt."

PAGE 11

3.7, line 3: Delete "Classes 1 and 2" and substitute "Class 1".

3.7.1.1: Delete and substitute:

"3.7.1.1 Label for class 2 and 3 undershirts. The class 2 and 3 undershirts (Olive Green 109 and Brown 436) shall have a combination size, identification, and instruction label conforming to type VI, class 14 of DDD-L-20 or the size and identification information may be on one side and care instructions on the other side provided the care instructions are right side up when the label is turned over and shall contain information required in 3.7.1 along with the following:

PAGE 11 (cont'd)

Do not use Bleach
Launder using permanent press cycle or hand wash using water. Tumble dry using permanent press cycle or drip dry on rustproof hanger.
Use of acne medicine containing benzoyl peroxide will cause discoloration.
Do not remove this label."

PAGE 14

Table IV, under "Test Method for Bursting strength": Delete "5122" and substitute "5120".

Table IV, under "Colorfastness classes 2 and 3": Add the following in the appropriate columns:

"Light	3.2.1.7	5660"

Add the following:

"Collarette Cloth	Ply, yarn	3.2.1.2	Visual
	Combed cotton	3.2.1.2	1200 1/
	Type of knit	3.2.1.2	Visual
	Texture	3.2.1.2	5070
	Nonfibrous material	3.2.1.4	2611
	Presence of labile Sulfur	3.2.1.4	2020
	Colorfastness (Classes 2 and 3)		
	Laundering	3.2.1.7	5610 2/ 3/
	Crocking	3.2.1.7	5651
	Perspiration	3.2.1.7	5680
	Light	3.2.1.7	5660
	Finish	3.2.1.8	1/
	pH	3.2.1.8	2811
	Infrared reflectance (Class 3)"	3.2.1.9	4.3.1 4/

PAGE 16

Table V: Add the following defects after the defects for "Bartacks and tacks":

"Raw edges	Any raw edge or protruding raw edge on outside up to and including 1/2 inch	Minor
	Any raw edge or protruding raw edge on outside more than 1/2 inch.	Major"

PAGE 18

4.2.5, under defects for "Workmanship": Delete lines 5 through 8.

PAGE 19

4.2.6: Delete second sentence.

4.3.1: Delete and substitute:

"4.3.1 Spectral reflectance measurements in the visible/near infrared. Spectral reflectance data shall be obtained from 600 to 860 nanometers (nm), at 20 nm intervals on a spectrophotometer (see 6.7) relative to a barium sulfate standard, the preferred white reference standard. Other white reference materials may be used, provided they are calibrated to absolute white; e.g., Halon, magnesium oxide, or vitrolite tiles (see 6.8). The spectral bandwidth shall be less than 26 nm at 860 nm. Reflectance measurements may be made by either the monochromatic or polychromatic mode of operation. When the polychromatic mode is used, the spectrophotometer shall operate with the specimen diffusely illuminated with the full emission of a source that simulates either CIE Source A or CIE Source D65. The specimen shall be measured as a single layer, backed with eight layers of the same fabric and shade. Measurements will be taken on a minimum of two different areas, and the data averaged. The specimen shall be viewed at an angle no greater than 10° from normal, with the specular component included. Photometric accuracy of the spectrophotometer shall be within 1 percent, and wavelength accuracy within 2 nm. The standard aperture size used in the color measurement device shall be 1.0 to 1.25 inches in diameter. When the measured reflectance values for any color at four or more wavelengths do not meet the limits specified in 3.2.1.9, it shall be a test failure."

PAGE 20

5.1.1, line 4, after "bag": Delete the remainder of paragraph and substitute "conforming to A-A-50083."

5.2.1, at end: Add the following:

"Shipping containers shall be arranged in unit loads in accordance with MIL-L-35078 for the type and class of load specified (see 6.2)."

PAGE 21

5.3: Delete and substitute:

"5.3 Palletization. When specified (see 6.2), undershirts, packed as specified in 5.2.2 or 5.2.3 shall be palletized on a 4-way entry pallet in accordance with load type Ia of MIL-STD-147. Pallet type shall be type I (4-way entry), type IV, or type V in accordance with MIL-STD-147. Pallets shall be fabricated

PAGE 21 (cont'd)

from wood groups I, II, III, or IV of MIL-STD-731. Each prepared load shall be bonded with primary and secondary straps in accordance with bonding means K and L or film bonding means O or P. Pallet pattern shall be number 3 in accordance with the appendix of MIL-STD-147."

PAGE 22

6.2: Add the following:

"(g) Type and class of unit load required (see 5.2.1)."

6.4: Delete dyestuff combinations 1, 3, and 4 in their entirety.

PAGE 23

Add the following new paragraphs:

"6.7 Spectrophotometers. Suitable spectrophotometers for measuring spectral reflectance in the visible/near infrared are the Diano Hardy, Diano Match Scan, Hunter D54P-IR, and Macbeth 1500 with IR option.

6.8 White standard. Barium sulfate of suitable quality for use as a white reference standard is available from the Eastman Kodak Company. The same source has available magnesium reagent (ribbon) and Halon. Suitable tiles can be obtained from the National Bureau of Standards or the instrument manufacturers.

6.9 Subject term (key word) listing.

Undergarments
Undershirt (Quarter sleeve)"

Custodians:

Army - GL
Navy - NU
Air Force - 99

Review activities:

Army - MD
Navy - MC
Air Force - 82
DLA - CT

User activity:

Air Force - 45

Preparing activity:

Army - GL

Project No. 8420-0082

MIL-U-44096A
17 September 1985
SUPERSEDING
MIL-U-44096
30 December 1982

MILITARY SPECIFICATION

UNDERSHIRT, MAN'S, (QUARTER-SLEEVE)

This document is approved for use by all Departments and Agencies of the Department of Defense.

1. SCOPE

1.1 Scope. This document covers cotton quarter-sleeve undershirts.

1.2 Classification. The undershirts shall be of two types in the following classes and sizes (see 6.2).

Type I - Crew neck, cotton
Type II - "V" neck, cotton

Class 1 - White bleached
Class 2 - Olive Green 109
Class 3 - Brown 436

Schedule of sizes

XX Small (26-28)	Medium (38-40)	XX Large (50-52)
X Small (30-32)	Large (42-44)	XXX Large (54-56)
Small (34-36)	X Large (46-48)	

Beneficial comments (recommendations, additions, deletions) and any pertinent data which may be of use in improving this document should be addressed to: U.S. Army Natick Research and Development Center, Natick, MA 01760-5014 by using the self-addressed Standardization Document Improvement Proposal (DD Form 1426) appearing at the end of this document or by letter.

FSC 8420

DISTRIBUTION STATEMENT A. Approved for public release; distribution is unlimited.

* 2. APPLICABLE DOCUMENTS

2.1 Government documents. Unless otherwise specified, the following documents of the issue in effect on date of invitation for bids or request for proposal, form a part of this document to the extent specified herein.

SPECIFICATIONS

FEDERAL

V-T-276 - Thread, Cotton
DDD-L-20 - Label: For Clothing, Equipage, and Tentage, (General Use)
PPP-B-636 - Boxes, Shipping, Fiberboard

*MILITARY

MIL-T-43548 - Thread, Polyester, Cotton-Covered and Rayon Covered

STANDARDS

FEDERAL

FED-STD-191 - Textile Test Method
FED-STD-751 - Stitches, Seams, and Stitchings

MILITARY

MIL-STD-105 - Sampling Procedures and Tables for Inspection by Attributes

MIL-STD-129 - Marking for Shipment and Storage
MIL-STD-147 - Palletized Unit Loads
MIL-STD-1491 - Glossary of Knitting Imperfections

OTHER GOVERNMENT DOCUMENTS

Laws and Regulations

Rules and Regulations Under the Textile Fiber Products Identification Act

(Copies may be obtained without charge from the Federal Trade Commision, Washington, DC 20580.)

(Copies of documents required by manufacturers in connection with specific acquisition functions should be obtained from the contracting activity or as directed by the contracting officer.)

* 2.2 Other publications. Unless otherwise specified, the following documer of the issue in effect on date of invitation for bids or request for proposal, form a part of this document to the extent specified herein.

AMERICAN ASSOCIATION OF TEXTILE CHEMISTS AND COLORISTS (AATCC)

AATCC Chromatic Transference Scale

(Application for copies should be addressed to the American Association of Textile Chemists and Colorists, Research Triangle Park, P.O. Box 12215, Durham, NC 27709.)

AMERICAN SOCIETY FOR TESTING AND MATERIALS (ASTM)

D 3951 - Standard Practice for Commercial Packaging

(Application for copies should be addressed to the American Society for Testing and Materials, 1916 Race Street, Philadelphia, PA 19103.)

(Technical society and technical association documents are generally available for reference from libraries. They are also distributed among technical groups and using Federal agencies.)

2.3 Order of precedence. In the event of a conflict between the text of this document and the references cited herein, the text of this document shall take precedence.

3. REQUIREMENTS

3.1 Samples.

3.1.1 Guide sample. Samples, when furnished, are solely for guidance and information to the contractor (see 6.3). Variation from this document may appear in the sample, in which case this document shall govern.

* 3.1.2 Standard sample. The undershirts shall match the standard sample for shade and appearance and shall be equal to or better than the standard sample with respect to all characteristics for which the standard sample is referenced (see 6.3).

3.2 Material (see 6.5).

3.2.1 Cloth, cotton, knitted.

* 3.2.1.1 Body cloth, cotton. The body cloth shall be made of single or 2-ply combed cotton yarn. The cloth shall be circular knit with a flat (jersey) stitch and shall have a minimum of 30 wales and 36 courses per inch and a minimum bursting strength of 60 pounds. Testing shall be as specified in 4.2.1.

3.2.1.2 Collarette cloth. The knitted collarette cloth shall be made of 20/1 or 40/2 or 24/1 (± 5 percent), combed cotton yarn. The cloth shall be a true 1 by 1 ribbed knit and shall have a minimum of 24 wales and 32 courses per inch. Testing shall be as specified in 4.2.1.

3.2.1.3 Preshrinking process. The knitted cloth shall be pre-shrunk by a mechanical shrinking process before being cut for undershirts such that the undershirt will meet the shrinkage requirements specified in 3.9. The preshrinking process used shall not be identified by name or trademark on the undershirt or package.

3.2.1.4 Nonfibrous material content. The starch and protein content, including chloroform-soluble material of the finished cloth, shall not exceed 6.0 when tested as specified in 4.2.1.

* 3.2.1.5 Color. The color of the knitted cloth for class 1 undershirts shall be white (bleached), for class 2 undershirts shall be Olive Green 109, and for class 3 undershirts shall be Brown 436. The use of dyes and compounds containing elementary sulfur capable of oxidation to sulfuric acid is prohibited. The dyestuff shall be chosen and applied so that the dyed and finished cloth shall contain no more labile sulfur than shown by the standard sample when tested as specified in 4.2.1. When a standard sample is not available, the dyed and finished cloth shall show no more than a slight trace of labile sulfur as defined in the test method specified in 4.2.1.

* 3.2.1.6 Matching. The color and appearance of the dyed cloth shall match the standard sample when viewed under filtered tungsten lamps which approximate artificial daylight having a correlated color temperature of 7000 ± 500 K, with illumination of 100 ± 20 foot candles, and shall be a good match to the standard sample under incandescent lamplight at 2300 ± 100 K.

3.2.1.7 Colorfastness. The dyed cloth shall show colorfastness to laundering (after 3 cycles), perspiration, and crocking equal to or better than the standard sample when tested as specified in 4.2.1 (see 6.3). When no standard sample is available, the dyed cloth shall show "fair" fastness to laundering (after 3 cycles), perspiration, and shall show an AATTCC Chromatic Transference Scale rating for crocking not lower than 3.5 when tested as specified in 4.2.1.

3.2.1.8 Finish. No materials having a tendency to cause latent tendering or yellowing of the cloth shall be used in any of the dyeing or finishing operations. Resin finishes are prohibited. The finished cloth shall have a pH value (minimum 5.0, maximum 8.5). Testing shall be as specified in 4.2.1.

3.2.1.9 Infrared reflectance. The finished knitted cloth for the class 3 undershirts only shall meet the following reflectance values for the wave lengths indicated when tested as specified in 4.2.1.

Wave length nanometers	Reflectance (percent) Max	Min	Wave length nanometers	Reflectance (percent) Max	Min
600	20	-	760	-	50
620	20	-	780	-	50
640	20	-	800	-	50
660	-	18	820	-	50
680	-	25	840	-	50
700	-	40	860	-	50
720	-	50	880	-	50
740	-	50	900	-	50

* 3.2.2 Thread. The cotton thread for seaming and stitching shall be ticket no. 70, 2 or 3 ply, type IA2, and ticket no. 30, 2 or 3 ply, type IC1 of V-T-276. As an alternate, cotton or rayon covered polyester thread conforming to ticket no. 100, 2 or 3 ply of MIL-T-43548 or 175 denier, single ply textured polyester thread with a minimum breaking strength of 1.4 pounds may be substituted for the ticket no. 70 and 30 cotton thread.

3.2.2.1 Color. The color of the thread shall be bleached white for class 1 undershirts, Olive Drab S-1, C.A. 66022 for class 2 undershirts, and Khaki P-1, C.A. 66019 for class 3 undershirts. The dyed thread shall show color-fastness to laundering (after 3 cycles) equal to or better than the standard sample (see 6.3). When no standard sample is available, the dyed thread shall show good colorfastness to laundering (after 3 cycles).

3.3 Design. The design of the undershirts shall be as shown on figures 1 and 2.

3.4 Patterns. Unless otherwise specified, standard patterns will be furnished by the Government. Standard patterns shall be used as a guide for cutting the contractor's working patterns. In the even of a conflict between patterns and specified dimensions, the document shall govern.

3.4.1 List of pattern parts. The undershirt shall be cut from the specified material in accordance with the pattern parts indicated:

List of pattern parts

Material	Pattern nomenclature	Cut parts
Cloth, cotton, knitted	XX-Small through X-Large	1
	Front and back	2
	Sleeve	
	XX-Large through XXX-Large	
	Front	1
	Back	1
	Sleeve	2

3.5 Stitches, seams, and stitching. Stitches, seams, and stitching types as specified in table I, shall conform to FED-STD-751. Whenever two or more methods of seams or stitches are given for the same part of the operation, any one of them may be used. Seams shall be sewn so that no raw edges, run-offs, twists, pleats, puckers, or open seams will result. All seams shall start and finish evenly. Thread tension shall be maintained so that there will be no excessively tight or loose stitching. Except for the alternate manufacturing operation 6 (with tape) for all stitch types, the lower (looper) thread shall be on the inside of the undershirt. When seam type EFc-1 is used, the stitching may be exposed on the face of the undershirt. Ends of all seams produced by stitch type 401 shall be caught in other seams or stitching.

3.5.1 Stitches per inch. The minimum and maximum number of stitches per inch shall be as specified in table I.

3.5.2 Thread breaks and ends of seams. Ends of all seams and stitching, when not caught in other seams or stitching (except for hem seams and over-seaming of collarette) shall be securely tacked by one of the methods specified in operation No. 10 of table I. Thread breaks (all stitch types) shall be secured by stitching back of the break not less than 1/2 inch. Skipped stitches or 401 stitch type breaks may be repaired by using 301 stitch type.

3.6 Manufacturing operations requirements. The undershirts shall be manufactured in accordance with the operation requirements specified in table I. The contractor is not required to follow the exact sequence of operations.

NO.	TABLE I. MANUFACTURING OPERATIONS REQUIREMENTS	STITCH TYPE	SEAM AND STITCHING TYPE	STITCHES PER INCH	THREAD		
					NEEDLE	BOBBIN/ LOOPER	COVER
1.	Cutting. The undershirts shall be cut in accordance with patterns (see 3.4). All component parts shall be cut lengthwise in the direction of the wales except the collarette. A continuuus (seamless) collarette may be used for type I.						
2.	Replacement of defective components. During the spreading, cutting and manufacturing process, components having material defects and damages that are classified as defects in section 4 shall be removed from production and replaced with non-defective and properly matched components.						
3.	Shoulder seams.						
	a. For non-continuous collarette (type I) close one shoulder seam.	504	SSa-1	12-16	70-3	70-3	70-3
	b. For continuous collarette and type II collarette close both shoulder seams.	504	SSa-1	12-16	70-3	70-3	70-3
	- or -						
	Non-continuous collarettes (type I) may be pre-seamed prior to joining to undershirt by stitching both ends together. The stitching shall be folded to the inside prior to attaching to the undershirt. The collarette seam shall be in line with a shoulder seam within 1/4 inch.	504	SSa-1	12-16	70-3	70-3	70-3

TABLE I. (cont'd)

NO.	MANUFACTURING OPERATIONS REQUIREMENTS	STITCH TYPE	SEAM AND STITCHING TYPE	STITCHES PER INCH	THREAD		
					NEEDLE	BOBBIN/ LOOPER	COVER
4.	Collarette.						
	a. Type I. The collarette shall be made of double thickness of ribbed knit cloth and shall be seamed to the undershirt with wales running perpendicular to the seam. Stitching shall cover all raw edges and the collarette shall finish 7/8 ± 1/8 inch wide.	504 or 406 (3/16 gage)	SSa-1 Bsb-1	12-16 10-12	70-3 70-3	70-3 30-2	70-3
	b. Type II. The collarette shall be made of double thickness of ribbed knit cloth and shall be seamed to the undershirt with the wales running perpendicular to the seam. Stitching shall start at the point of the "V" continuing around the neck and back of point of "V" with the collarette overlapped and securely catching raw edges of each end of collarette in the seam. Collarette shall finish 7/8 ± 1/8 inch wide.	504	SSa-1	12-16	70-3	70-3	70-3
5.	For non-continuous collarette (type I).						
	Close remaining shoulder seam and collarette.	504	SSa-1	12-16	70-3	70-3	70-3
6.	Reinforcing the collarette.						
	A strip made of the body cloth (3.2.1.1), cut along the wales may be used. Both edges of the strip shall be turned under not less than 1/8 inch and stitched from armhole seam to armhole seam across back of collarette. The distance between the two rows of stitching shall be 1/4 to 5/16 inch. The strip shall finish 7/16 to 1/2 inch wide.	301 or 401	SSag-3(b)	12-16	70-3	70-3	
	- or -						
	Overseam stitching from shoulder seam (armhole to armhole seam) across back of collarette.	406	-	12-16	70-3	30-2	

TABLE I. (cont'd)

NO.	MANUFACTURING OPERATIONS REQUIREMENTS	STITCH TYPE	SEAM AND STITCHING TYPE	STITCHES PER INCH	THREAD		
					NEEDLE	BOBBIN/ LOOPER	COVER
7	Sleeves.						
	a. Close sleeves along underarm.	504	SSa-1	12-16	70-3	70-3	70-3
	b. Hem sleeve bottom(s) to finish 1 ± 1/4 inch wide. Hem shall be stitched over the first end of stitching not less than 1 inch.	503	EFc-1	10-14	70-3	70-3	
	c. Close sleeves along underarm.	504	SSa-1	12-16	70-3	70-3	70-3
	d. Bartack as specified in operation 10.						
8.	Set sleeves to armholes.	504	SSa-1	12-16	70-3	70-3	70-3
9.	Hem bottom.						
	Hem bottom of undershirt to finish 1 ± 1/4 inch wide. The stitching shall overlap not less than 1 inch.	503	EFc-1	10-14	70-3	70-3	
10.	Tacking.						
	The ends of all stitches when not caught in other seams or stitching (except for hem seams and overseaming of collarette) shall be securely tacked by one of the following methods:						
	Fold back end of stitching chain 1/4 to 3/8 inch and bartack perpendicular to seam 1/16 to 1/8 inch from folded edge. Bartack shall be 1/2 ± 1/8 inch long.	Bartack		28 per bartack	70-3	70-3	
	- or -						

TABLE I. (cont'd)

NO.	MANUFACTURING OPERATIONS REQUIREMENTS	STITCH TYPE	SEAM AND STITCHING TYPE	STITCHES PER INCH	THREAD		
					NEEDLE	BOBBIN/ LOOPER	COVER
10	Tacking. (cont'd) The first and last ends of stitching chain shall be stitched back into the seam by means of appropriate mechanical device.	504	SSa-1	12-16	70-3	70-3	70-3
11	Clean undershirt. a. Trim and remove raw edges, and ends of thread of stitching inside and outside of undershirt. b. Remove all spots and stains.						
12	Press undershirt (optional).						

NATICK Form 903
1 Dec 76 EDITION OF 1 OCT 76 WILL BE USED UNTIL EXHAUSTED.

* 3.7 Labeling. Each undershirt shall have an identification and size label marked on the inside center back just below the collarette. The label for classes 1 and 2 shall conform to type III or IV, class 4 of DDD-L-20, except that the legend and size of characters shall be as specified in 3.7.1. For the purpose of determining label colorfastness under DDD-L-20, the end item is intended to be laundered.

3.7.1 Label legend. The label shall contain the following information in the indicated order and size of character:

	Size of character (minimum)
Nomenclature	1/8 inch
Contract number	3/32 inch
Name of supplier	1/8 inch
Size *	1/8 inch
Stock number	3/32 inch
Textile Fiber Products Identification Act Information	3/32 inch

* The numerical sizes for each adjective size shall be stamped directly below or next to the adjective size in the same size characters. For example:

XX Small
(26-28)
- or -
XX Small (26-28)

* 3.7.1.1 Label class 3 undershirt only. The class 3 undershirt Brown 436 shall have a combination size, identification and instruction label conforming to type VI, class 14 of DDD-L-20 and shall contain information contained in 3.7.1 and as follows:

Launder using permanent press cycle or hand
wash-warm water. Tumble dry using permanent
cycle or drip dry on a rustproof hanger.
Do not use chlorine bleach.
Do not remove this label.

3.8 Sizes, measurements and weights. Sizes, measurements and weights shall conform to the requirements shown on table II. All measurements shall be in inches and shall be taken as shown on figures 1 and 2, the letters corresponding to those in the table.

TABLE II. Sizes, measurements, and weights

Size	Width 2/ A	Length 3/ B	Sleeve length C	Armhole length (flat) D	Sleeve width (bottom) E	Neck opening (circumference) 4/ F Type I	Neck opening (circumference) 4/ F Type II	Shoulder length G	Weight per dozen minimum lbs	Weight per dozen minimum oz
XX Small (26-28)	14	27	6-1/2	8	5-3/4	16	23-1/2	3-7/16	2	0
X Small (30-32)	16	29	7	8-1/4	6	16-1/2	24	4-1/16	2	8
Small (34-36)	18	30	7	8-3/4	6-1/2	17-1/2	25	4-11/16	2	12
Medium (38-40)	20	31	7-1/2	9-1/4	7	18-1/2	26	5-5/16	3	2
Large (42-44)	22	33	7-1/2	9-3/4	7-1/4	19-1/2	27	5-15/16	3	9
X Large (46-48)	24	33	8	10-1/4	7-1/2	20-1/4	27-3/4	6-9/16	3	14
XX Large (50-52) 1/	26	34	8	10-3/4	7-3/4	20-3/4	28-1/4	7-3/16	4	5
XXX Large (54-56) 1/	28	34	8	11	8	21-1/4	28-3/4	7-13/16	4	12
Tolerance	± 1/2	± 1	± 1/2	+1/2 -1/4	± 1/2	± 1	± 1	+7/16 -5/16	-	-

1/ Wherever the widths specified cannot be produced on a single machine, cloth may be taken from two smaller machines and seamed together to produce the specified widths using seam and stitch type FSa-1-606 or 607 with 70-3 and 30-2 thread, or seam and stitch type SSa-1-504 and 70-3 thread using 12 to 16 stitches per inch.

2/ Width measurement "A" shall be taken as shown on figures 1 and 2.

3/ Length measurement "B" shall be taken from the bottom hem edge to the junction of the shoulder seam and the seam attaching collarette to body.

4/ Neck opening shall be measured by grasping collarette at center back and center front and forming a straight edge; measure, and multiply by two.

* 3.9 Shrinkage. The completed undershirts shall not shrink nor elongate more than 12.0 percent in any of the measurements A, B or C (see figures 1 and 2) when tested as specified in 4.2.4.1.

3.10 Workmanship. The finished undershirts shall conform to the quality of product established by this document. The occurence of defects shall not exceed the applicable acceptable quality levels.

4. QUALITY ASSURANCE PROVISIONS

4.1 Responsibility for inspection. Unless otherwise specified in the contract or purchase order, the contractor is responsible for the performance of all inspection requirements as specified herein. Except as otherwise specified in the contract or purchase order, the contractor may use his or any other facilities suitable for the performance of the inspection requirements specified herein, unless disapproved by the Government. The Government reserves the right to perform any of the inspections set forth in the document where such inspections are deemed necessary to assure that supplies and services conform to prescribed requirements.

4.1.1 Certificate of compliance. Where certificates of compliance are submitted, the Government reserves the right to check test such items to determine the validity of the certification.

4.2 Quality conformance inspection. Unless otherwise specified, sampling for inspection shall be performed in accordance with MIL-STD-105.

4.2.1 Component and material inspection. In accordance with 4.1, components and materials shall be tested in accordance with all the requirements of referenced documents unless otherwise excluded, amended, modified, or qualified in this document or applicable purchase document. In addition, the components listed in table IV shall be tested for the characteristics shown. The methods of testing specified in FED-STD-191, wherever applicable and as specified in table IV, shall be followed. All test reports shall contain the individual values used expressing the final results. For each of the components, the lot size shall be expressed in yards and the sample unit shall be 1 linear yard. The sample size shall be as specified in table III. A component lot shall be unacceptable if one or more sample units fail to meet any of the requirements specified.

TABLE III. Sample size

Lot size	Sample size (number of sample units)
800 or less	2
801 up to and including 22,000	3
22,001 and over	5

TABLE IV. Component tests

Component	Characteristic	Reference paragraph	Test method
Body cloth	Ply, yarn	3.2.1.1	Visual
	Combed cotton	3.2.1.1	1200 1/
	Type of knit	3.2.1.1	Visual
	Texture	3.2.1.1	5070
	Bursting strength (pounds)	3.2.1.1	5122
	Nonfibrous material	3.2.1.4	2611
	Presence of labile sulfur	3.2.1.4	2020
	Colorfastness classes 2 and 3		
	Laundering	3.2.1.7	5610 2/ 3/
	Crocking	3.2.1.7	5651
	Perspiration	3.2.1.7	5680
	Finish	3.2.1.8	1/
	pH	3.2.1.8	2811
	Infrared reflectance (class 3)	3.2.1.9	4.3.1 4/

1/ Unless otherwise specified, a certificate of compliance shall be submitted and will be acceptable for the stated requirement.

2/ Evaluation of the multifiber cloth for color transfer shall be made only on the cotton fiber float.

3/ Using 3 laundering cycles with drying after each cycle.

4/ One determination shall be made per sample unit.

* 4.2.2 End item visual examination. The end item shall be examined for the defects listed in table V. The lot size shall be expressed in units of undershirts. The sample unit shall be one undershirt. The inspection level shall be II and the acceptable quality level (AQL), expressed in terms of defects per hundred units, shall be 1.5 for major defects and 4.0 for total (major and minor combined) defects. The material defects shall be defined as in MIL-STD-1491.

TABLE V. End item visual defects

		Classification	
Examine	Defect	Major	Minor
Material	Any hole, cut, tear, drop stitch, thin area, or mend.	X	
	Any slub more than twice the thickness of normal yarn.		X
	Any accumulation of slubs, clearly visible, causing nonuniform overall appearance. 1/		X
	Rowey yarn or tiger stripes, loose knitting causing sleaziness, or giving the appearance of shade bars.		X
	Birdseye or miss-knit.		X
	Color (class 1) not bleached white	X	
Shade and appearance (classes 2 and 3)	Shade not camparible to standard or approved sample (off shade).		X
	Dye streaks clearly visible. 1/		X
Thread	Not type, size, or color specified.	X	
Cleanness	Spot or stain on outside (largest dimension any direction) 2/:		
	-More than 1/4 inch up to 1/2 inch inclusive.		X
	-More than 1/2 inch.	X	
	Two or more untrimmed ends more than 1 inch in length inside or outside.		X
Components	Any component missing or other than specified.	X	

TABLE V. End item visual defects (cont'd)

Examine	Defect	Classification Major	Classification Minor
Seams and stitching	Any seam twisted, puckered, or pulled, affecting appearance.		X
	Needle chews.	X	
	Tight tension (stitches break when normal strain is applied to seam or stitching).		X
	Loose tension resulting in a loosely secured seam.		X
	Any part of undershirt badly pleated, or caught or twisted in any unrelated row of stitching.	X	
Seam type	Wrong seam type.	X	
Stitch type	Wrong stitch type.	X	
Stitches per inch	Number of stitches per inch less than minimum or more than maximum specified.		X
Open seam (any broken stitch or two or more continuous skipped stitches)	Any open seam, except on hems.	X	
	Any open seam on hems 1/2 inch or more.		X
Stitches skipped or broken (stitches skipped or broken on same row of stitching but not amounting to an open seam)	Skipped or broken stitches more than 1/2 inch.	X	
Bartacks and tacks	Bartack or tack omitted on collarette.	X	
	Bartack or tack misplaced on collarette not serving purpose intended.	X	
	Bartack or tack insecure on collarette.		X
	Bartack on collarette less than 1/16 inch or more than 1/8 inch from folded edge or less than 3/8 inch or more than 5/8 inch long.		X
	Chain stitch run-off not secured.		X

TABLE V. End item visual defects (cont'd)

Examine	Defect	Classification Major	Classification Minor
Collarette	Not double thickness of ribbed cloth.	X	
	Improperly attached to body affecting appearance or serviceability.	X	
	Other than type specified.	X	
	Collarette not uniform in width.		X
	Width less than 3/4 inch or more than 1 inch.		X
	Preseamed non-continuous collarette out of line with shoulder seam by more than 1/4 inch.		X
Hem, sleeves and bottom	Ommited.	X	
	Width of hem not uniform throughout.		X
	Width of hem less than 3/4 inch or more than 1-1/4 inches.		X
	Hem not stitched over first end of stitching from 1 to 1-1/4 inches.		X
Labeling, size and identification	Omitted, incorrect, illegible, or misplaced.		X
	Not type or size specified.		X

1/ At normal inspection distance (approximately 3 feet).

2/ Spot or stain within 5 inches from bottom of undershirt shall not be considered a defect.

4.2.3 End item dimensional examination. The end item shall be examined for conformance to the dimensions specified in table II. Any dimension not within the specified tolerance shall be classified as a defect. The lot size shall be expressed in units of undershirts. The sample unit shall be one undershirt. The inspection level shall be S-3 and the AQL, expressed in terms of defects per hundred units, shall be 10.0.

4.2.4 End item testing.

4.2.4.1 Shrinkage testing. The end item shall be tested for shrinkage as specified in Method 7556 of FED-STD-191 except that after drying the undershirts shall be conditioned for 1 hour in a relaxed supported state before measuring. The undershirts shall not be moistened or pressed before measuring, measurements shall be taken to the nearest 0.1 inch with the undershirts laid flat as shown on figure 1 or 2, and elongation shall be reported with a "-" sign. The lot shall be expressed in undershirts. The sample unit shall be three undershirts from each size in the lot. The sample size shall be as indicated in table III. The lot shall be rejected if any sample unit fails to meet the shrinkage requirement specified in 3.9.

4.2.4.2 Weight testing. The end item shall be tested for conformance to the weight per dozen requirements in table II. The sample unit shall consist of twelve undershirts of one size only. The sample shall consist of one sample unit from each size in the lot. The sample undershirts shall be allowed to reach equilibrium under standard conditions as defined in FED-STD-191. Upon reaching equilibrium, each sample unit shall be weighed to the nearest 0.1 ounce under standard conditions. Failure of any sample unit to conform to the applicable weight per dozen requirement shall be cause for rejection of the lot.

4.2.5 Packaging inspection. An inspection shall be made to determine that the preservation, packing, and marking comply with the section 5 requirements. Defects shall be scored in accordance with table VI. The sample unit shall be one shipping container fully packaged. The lot size shall be the number of shipping containers in the inspection lot. The inspection level shall be S-2 and the AQL, expressed in terms of defects per hundred units, shall be 2.5.

TABLE VI. Packaging defects

Examine	Defect
Marking (exterior and interior)	Omitted; incorrect; illegible; of improper size, location, sequence, or method of application.
Materials	Any component missing or not as specified. Any component damaged, affecting serviceability.
Workmanship	Inadequate application of components, such as incomplete closure of container flaps, improper taping, loose strapping, or inadequate stapling. Bulged or distorted container. Polyethylene bag heat sealed seams open, non-continuous or crooked; vent hole missing or greater than 1/4 inch diameter. Incorrectly fabricated bag.

TABLE VI. Packaging defects (cont'd)

Examine	Defect
Content	Number of polyethylene bagged unit packs per shipping container is more or less than specified. Number of undershirts per polyethylene bag is more or less than specified. 1/

1/ For this defect, four polyethylene bagged unit packs shall be examined from from each shipping container in the sample.

4.2.6 Palletization inspection. Inspection shall be made to determine that the palletization complies with the section 5 requirements. Pallet type shall be type 1 (4-way entry), type III, type IV or type V in accordance with MIL-STD-147. Defects shall be scored in accordance with the list below. The sample unit shall be one palletized unit load fully packaged. The lot size shall be the number of palletized unit load fully packaged. The lot size shall be the number of palletized unit loads in the inspection lot. The inspection level shall be S-1 and the AQL, expressed in terms of defects per hundred units, shall be 6.5.

TABLE VII. Palletization defects

Examine	Defects
Finished dimensions	Length, width, or height exceeds specified maximum requirement.
Palletization	Pallet pattern not as specified. Interlocking of loads not as specified. Load not bonded with required straps as specified.
Weight	Exceeds maximum load limits.
Marking	Omitted; incorrect; illegible; of improper size, location, sequence, or method of application.

4.3 Methods of inspection.

* 4.3.1 Infrared reflectance test (class 3). Reflectance data shall be obtained from 600 to 900 nanometers (nm) relative to barium sulfate using a spectrophotometer. The spiral band width at 900 nm shall not exceed 50 nm. The specimen shall be illuminated by a diffuse polychromatic source simulating CIR Source A viewed at an angle near normal to the specimen surface using a minimum of four layers of fabric in the measurement.

5. PACKAGING

5.1 Preservation. Preservation shall be level A, or Commercial as specified (see 6.2).

* 5.1.1 Level A. Each undershirt shall be folded in accordance with standard practice to approximate dimensions of 11 by 7-1/4 inches. Two folded undershirts, of one type, class and size only, shall be inserted in a snug-fitting flat style clear polyethylene film bag of 0.00125 inch thickness (± 25 percent tolerance). The bag may be fabricated from polyethylene tubing or sheeting. The polyethylene bag shall be formed with heat sealed seams that are straight, continuous, and parallel to each other and the formed edges of the bag. The final closure of the bag shall be heat sealed with the heat seal made as close as possible to the open end. A 1/4-inch diameter hole shall be made at one corner of each polyethylene bag to allow excess air to escape. Alternatively, the final closure of the polyethylene bag may be accomplished by means of a tuck or reverse flap. When specified (see 6.2), three folded undershirts of type I, class 1, and one size only, shall be inserted in a polyethylene film bag as specified herein.

* 5.1.2 Commercial. The undershirts shall be preserved in accordance with ASTM D 3951.

5.2 Packing. Packing shall be level A, B, or Commercial as specified (see 6.2).

5.2.1 Level A. One hundred and twenty undershirts of one type and size only, preserved as specified in 5.1, shall be packed in a snug-fitting fiberboard shipping container, conforming to style RSC-L, grade V2s of PPP-B-636. The inside of each shipping container shall be fitted with a box liner conforming to type CF, class weather-resistant, variety DW, grade V15c of PPP-B-636. Undershirts, preserved level A, shall be packed flat two in length, two in width and 30 in depth. Inside dimensions of each shipping container shall be 22-1/2 inches in length, 15 inches in width, and 15 inches in depth (± 1/8 inch). Each shipping container shall be closed in accordance with method III, waterproofed in accordance with method V, and reinforced as specified in the appendix of PPP-B-636, except that inspection shall be in accordance with 4.2.5. Toward the end of the contract or order, or when there are less than the required amount per container of the same size, mixed sizes of one type only may be packed within the same shipping container.

* 5.2.2 Level B. One hundred and twenty undershirts of one type and size only, preserved as specified in 5.1 shall be packed in a snug-fitting fiberboard shipping container conforming to style RSC-L, type CF (variety DW) or SF, class domestic, grade 275 of PPP-B-636. The inside of each shipping container shall be fitted with a box liner conforming to type CF, class domestic, variety DW, grade 275 of PPP-B-636. Undershirts preserved level A, shall be packed flat two in length, two in width and 30 in depth. Inside dimensions of each shipping

container shall be 22-1/2 inches in length, 15 inches in width, and 15 inches in depth (± 1/8 inch). Each shipping container shall be closed in accordance with method II as specified in the appendix of PPP-B-636, except that inspection shall be in accordance with 4.2.5. Toward the end of the contract or order, or when there are less than the required amount per container of the same size, mixed sizes of one type and class only may be packed within the same shipping container.

* 5.2.2.1 Weather-resistant fiberboard containers. When specified (see 6.2), the shipping container shall be grade V3c, V3s or V4s fiberboard box fabricated in accordance with PPP-B-636 and closed in accordance with method III as specified in the appendix of PPP-B-636 except that the inspection shall be in accordance with 4.2.5.

* 5.2.3 Commercial packing. Undershirts, preserved as specified in 5.1, shall be packed in accordance with ASTM D 3951.

* 5.3 Palletization. When specified (see 6.2), undershirts, packed as specified in 5.2, shall be palletized on a 4 way entry pallet in accordance with load type 1a of MIL-STD-147. Each prepared load shall be bonded with primary and secondary straps in accordance with bonding means K and L or film bonding means O or P. Pallet pattern #3 shall be used in accordance with the appendix of MIL-STD-147. If the container is of a size which does not conform to any of the pallet patterns specified in MIL-STD-147, the pallet pattern shall first be approved by the contracting officer.

5.4 Marking. In addition to any special marking required by the contract or purchase order, shipping containers and palletized unit loads shall be marked i- accordance with MIL-STD-129 or ASTM D 3951, as applicable.

5.4.1 Labels, mixed sizes. Each shipping container packed with mixed sizes of one type and class only, shall have securely attached to the end and side, directly under the printing or stenciling, a white paper label 5 by 4 inches with the words "MIXED NSN'S" plainly stamped or printed thereon and under these words shall be legibly stamped or printed the correct quantity and NSN'S contained herein.

5.4.2 Polyethylene bagged unit packs. Polyethylene bagged unit packs shall have the required identification information legibly printed or stamped in black directly on the bag across the center face or on a white paper label inserted within the bag so as to permit ready identification.

6. NOTES

6.1 Intended use. The undershirts are intended for use by Military Personnel of the Department of the Defense.

* 6.2 Ordering data. Purchasers should exercise any desired options offered herein and acquisition documents should specify the following:

(a) Title, number, and date of this document.
(b) Type class and size required (see 1.2).
(c) Selection of the applicable levels of preservation and packing (see 5.1 and 5.2).
(d) When three undershirts are required to a unit pack for Type I class 1 undershirts only (see 5.1.1).
(e) When weather-resistant grade fiberboard shipping containers are required for level B packing (see 5.2.2.1).
(f) When palletization is required (see 5.3)

6.3 Sample. For access to samples, address the contracting activity issuing the invitation for bids.

* 6.4 Dyestuff formulation. One of the following suggested, but not mandatory, dyestuff combinations for Shade Brown 436 can be used:

Combination 1

Reactive Yellow 37
Reactive Red 180
Reactive Blue 19
Remazol Golden Yellow 3RA

Combination 2

Reactive Yellow 84
Reactive Scarlet H-EA
Reactive Blue 160

Combination 3

Reactive Orange 91
Reactive Red 183
Reactive Blue 184

Combination 4

Remazol Golden Yellow 3RA
Reactive Black 5
Reactive Red 180

A suggested but not mandatory dyestuff formulation for Olive Green 109 is as follows:

New color index

Vat Black, CI 69525
Vat Green 3, CI 69500
Vat Green 8, CI 71050

Shaded with either or both of the following:

Vat Brown 3, CI 69015
Vat Yellow of suitable fastness

The redness of shade should result from the predominant use of the main colors specified and not from the shading colors.

6.5 Recycled material. It is encouraged that the recycled material be used when practical as long as it meets the requirements of the document (see 3.2).

6.6 Changes from previous issue. The margins of this document are marked with an asterisk to indicate where changes (additions, modifications, corrections, deletions) from the previous issue were made. This was done as a convenience only and the Government assumes no liability whatsoever for any inaccuracies in these notations. Bidders and contractors are cautioned to evaluate the requirements of this document based on the entire content irrespective of the marginal notations and relationship to the last previous issue.

Custodians:

Army - GL
Navy - NU
Air Force - 99

Review activities:

Army - MD
Navy - MC
Air Force - 82
DLA - CT

User Activity:

Air Force - 45

Preparing activity:

Army - GL

Project No. 8420-0079

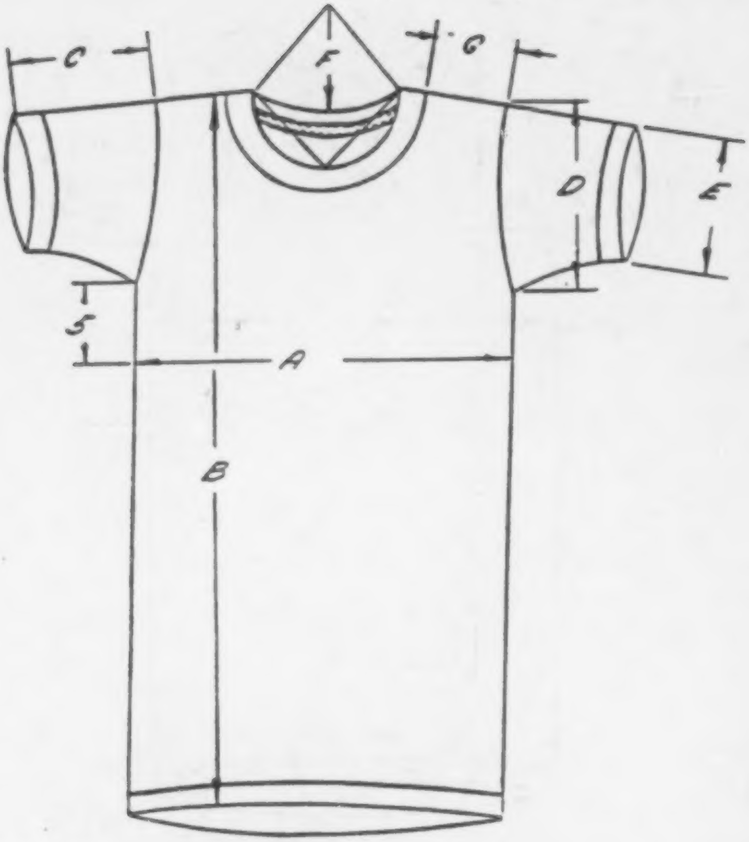


FIG. 1
UNDERSHIRT MAN'S TYPE I
(QUARTER-SLEEVE)

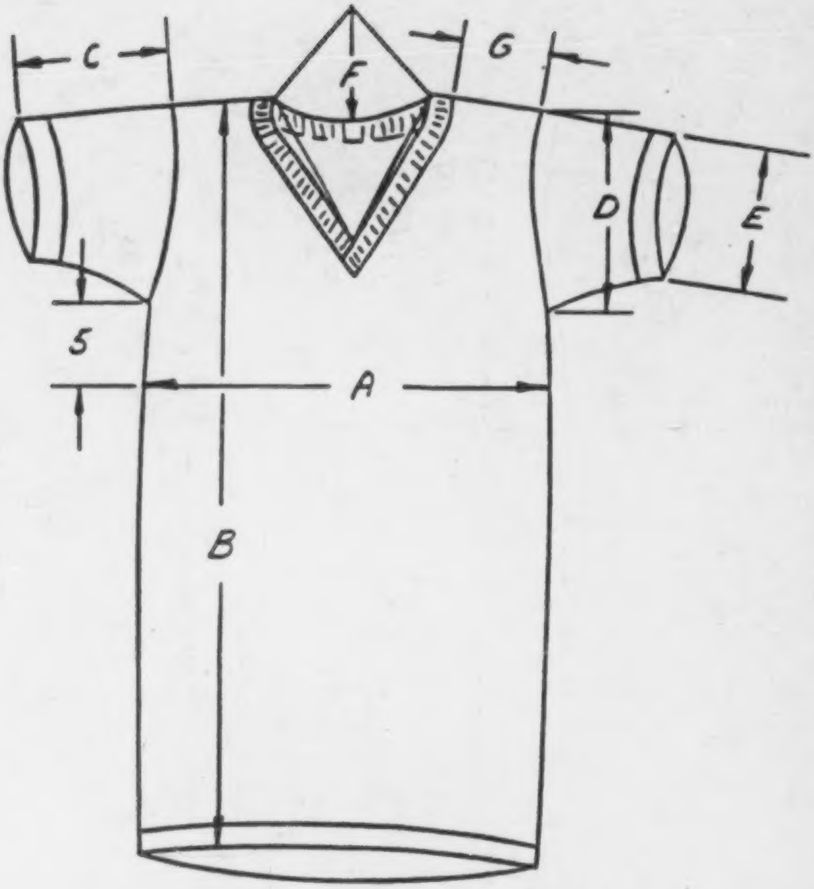


FIG 2
UNDERSHIRT, MAN'S TYPE II
(QUARTER-SLEEVE)

U.S. GOVERNMENT PRINTING OFFICE: [illegible] - [illegible]

INSTRUCTIONS: In a continuing effort to make our standardization documents better, the DoD provides this form for use in submitting comments and suggestions for improvements. All users of military standardization documents are invited to provide suggestions. This form may be detached, folded along the lines indicated, taped along the loose edge *(DO NOT STAPLE)*, and mailed. In block 5, be as specific as possible about particular problem areas such as wording which required interpretation, was too rigid, restrictive, loose, ambiguous, or was incompatible, and give proposed wording changes which would alleviate the problems. Enter in block 6 any remarks not related to a specific paragraph of the document. If block 7 is filled out, an acknowledgement will be mailed to you within 30 days to let you know that your comments were received and are being considered.

NOTE: This form may not be used to request copies of documents, nor to request waivers, deviations, or clarification of specification requirements on current contracts. Comments submitted on this form do not constitute or imply authorization to waive any portion of the referenced document(s) or to amend contractual requirements.

(Fold along this line)

(Fold along this line)

DEPARTMENT OF THE ARMY

US ARMY NATICK RESEARCH
and DEVELOPMENT CENTER
ATTN: STRNC-ES
Natick, MA 01760-5014

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE $300

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL
FIRST CLASS PERMIT NO. 12062 WASHINGTON D. C.

POSTAGE WILL BE PAID BY THE DEPARTMENT OF THE ARMY

Commander
US Army Natick Research
and Development Center
ATTN: STRNC-ES
Natick, MA 01760-5014

STANDARDIZATION DOCUMENT IMPROVEMENT PROPOSAL

(See Instructions – Reverse Side)

1. DOCUMENT NUMBER MIL-U-44096A	2. DOCUMENT TITLE Undershirt, Man's (Quarter sleeve)
3a. NAME OF SUBMITTING ORGANIZATION	4. TYPE OF ORGANIZATION (Mark one) ☐ VENDOR ☐ USER ☐ MANUFACTURER ☐ OTHER (Specify): ______
b. ADDRESS (Street, City, State, ZIP Code)	

5. PROBLEM AREAS

a. Paragraph Number and Wording:

b. Recommended Wording:

c. Reason/Rationale for Recommendation:

6. REMARKS

7a. NAME OF SUBMITTER (Last, First, MI) – Optional	b. WORK TELEPHONE NUMBER (Include Area Code) – Optional
c. MAILING ADDRESS (Street, City, State, ZIP Code) – Optional	8. DATE OF SUBMISSION (YYMMDD)

DD FORM 82 MAR 1426 PREVIOUS EDITION IS OBSOLETE.

NATICK OF, 20 Nov 84

Mr. **Dyson**. If I could, just for the record, I am interested in winter clothing, how you buy, your requirements. I do not want your specifications, I do not think the record would hold all that, but your general requirements on winter clothing for the record.

[The following information was received for the record:]

Extended Cold Weather Clothing System (ECWCS)

ECWCS is the new state-of-the-art cold weather clothing system which capitalizes on the technological advances of industry. It was introduced by the Army in January 1986 after an extensive research and development period. Issue has been and will continue to be restricted to predesignated high-priority units of the Army, Marine Corps and Air Force.

Unlike all other established cold weather clothing items, which are procured based on past demand history, ECWCS requirements have been, and continue to be formulated by the using services. Based on the services' forecast DPSC procures ECWCS on an annual basis. The forecast supports initial issue and replenishment quantities for designated units within the services. The services' initial fielding plan required that all troops be issued ECWCS over a 3-year period. However, due to budgetary restrictions, issues have been restricted to the above high-priority units.

To date, DPSC has awarded contracts in the amount of $59.0 million, and presently plans to procure an additional estimate of $14.5 million during fiscal year 1989. Based on current funding information available to DPSC this procedure will continue to be the practice, that is, buying against requirements instead of building stock levels.

Mr. **Hutto**. OK.

Mr. Lancaster, 2 minutes.

Mr. **Lancaster**. It is my understanding that in June of 1988 Michael Stone, then Secretary of the Army, became concerned about supplying the quality and requested a study to be made by executives of the textile and apparel industry. I wonder if you could summarize briefly the results of that study and if you could provide a copy of the complete study for the record.

IMPROVING THE UNIFORM PROCUREMENT PROCESS

1 DECEMBER 1988

WILLIAM V. ROBERTI

A REPORT FOR THE UNDER SECRETARY OF THE ARMY
PREPARED PURSUANT TO DEFENSE LOGISTICS AGENCY
CONTRACT DLA600-88-M-5084

1 DEC 1988

I. Background

In June 1988, Michael Stone, the Under Secretary of the Army (USA), became concerned about the supply of and the quality of the clothing & textile (C&T) items being procured for the Army. Adequate inventories of selected C&T items were nonexistent. Moreover, permeating through the Government's long established list of suppliers was an ongoing (2 years and continuing) C&T fraud investigation that had resulted in large numbers of debarments.

The USA asked the Defense Logistics Agency (DLA) to be the executive agent and draw the necessary industry and Government personnel together to analyze current uniform procurement practices and make recommendations for improvement. The DLA contracted with me (Enclosure 1) to render a report addressing the following three objectives: (1) identify ways to reduce the clothing acquisition cycle time; (2) identify ways to improve the clothing specification development process; and (3) recommend systemic improvements to the uniform procurement process as a whole.

DLA also asked two trade associations, the American Apparel Manufacturers Association and the American Textile Manufacturers Institute, to nominate expert industry executives from all segments of the C&T commodity area to assist me in my report. A list of their names is attached as Enclosure 2. Government representation from the Defense Logistics Agency; Defense Personnel Support Center; Deputy Chief of Staff for Logistics, Department of the Army; U.S. Army Natick Research, Development and Engineering Center; and U.S. Army Program Manager for Clothing and Individual Equipment provided the necessary background and technical information requested by industry representatives. A total of seven meetings were held between 15 September 1988 and 1 December 1988, the date of the final report. Every effort was made to ensure that the industry experts would not receive an advantage in any future Government procurement as a result of their participation in this report.

II. Introduction

During the course of the meetings, the group focused on the three chartered objectives. However, it became evident early on that it would be more effective to report out on five topic areas: (1) Specifications; (2) Contract Administration; (3) Contract Methods; (4) Budget Issues; and (5) Management. This report will address each of those in turn below. In addition, there are three over-arching issues that should be discussed at the outset. First, from our perspective, industry's goal in doing business with the Government is clear and immutable -- we must earn a reasonable profit. In order to do so, we need a Government procurement system which is efficient and well-managed. On the other hand, judging from the system currently in place, the Government's goals in dealing with industry are unclear. In our view, the Government's goals should be to procure a quality product, in sufficient quantity, in a timely manner, at a fair price, and to maintain a reliable industrial base of producers. Second, delays are pervasive throughout the procurement process. They may not cause contracting officers to stay awake at night, but they do cause contractors to lose sleep, and more importantly -- money! To repeat an age old adage -- time is money. Every delay, no matter how short, forces contractors to make risky decisions about contracts. These risks translate into lost profits for the contractor or decreased performance for the same price for the Government. Since industry's goal is to make a reasonable profit, and the Government's goal is to achieve the level of performance paid for, neither is benefitted by delays. Third, we in the C&T industry see an adversarial/attitudinal problem between the Government and industry. Government employees seem to take an unnecessarily adversarial posture in dealing with C&T contractors, allegedly in order to "protect the Government's interests." This animosity, distrust, and narrow-minded adherence to inflexible rules often works against the Government by engendering a similar attitude on the part of industry in its dealings with the Government. We believe that both industry and the Government need to work together to create an environment in which both achieve its goals. This will take tremendous leadership. This leadership must come from the upper echelons of the Services' procurement organizations if it is to flow down to those who confront these problems daily. Consequently, I urge serious consideration and implementation of the recommendations of this group.

III. Specifications

A. Findings and Conclusions

We find that it takes an average of 38 weeks to develop a new specification and patterns and it can take up to 30 months. Specifications and patterns are detailed and complex documents that undergo slow, but continuous development. Military specifications are used to procure all but 7 of the 8,000 C&T items. Contractors are often required to produce inefficient size tariffs such as the [illegible] sizes of the women's shirt. Limited inter-Service standardization further exacerbates this problem.

We find there is insufficient communication between the Government and industry during specification development and initial mass production. New specifications are provided to industry for comment, but distribution does not properly reach all interested segments of the production chain. There is no real incentive for industry to respond because (1) there is no comprehensive feedback system on industry comments, (2) uninterested firms do not respond, and (3) interested firms can lose their competitive advantages by making specifications easier for their competitors.

Thus, specifications are often finalized without input from those manufacturers that are likely to be involved in the procurement. Numerous mass-production problems and the slow problem resolution process then result in costly delays to industry and late deliveries to the Services. This is especially critical for new fabrics because of the unpredictability of the finishing process and long, unexpected delays resulting from finishing failures. Moreover, once the specification is finalized, there is no mechanism in place to continue a dialogue on the specification.

The specification development and specification maintenance process must be improved. Communication must be improved and delays reduced. The development process must be broadened, especially for fabrics, to afford industry an opportunity to uncover and resolve problems that might arise in mass production. Finally, the Government must keep abreast of technological advances and update specifications accordingly.

1 DEC 1988

B. Recommendations

1. Increase inter-Service standardization for common items.

2. Reduce excessively large size tariffs, and use acceptable commercial size standards (e.g., get away from 118 sizes of women's shirts).

3. Maximize the use of acceptable commercial item procurements and performance specifications and styles (i.e., underwear, socks, baseball caps -- staple furnishings).

4. Involve the manufacturing industry in product design and manufacturing techniques. This will result in better specification development and fewer future specification changes.

5. Improve distribution of draft specifications and patterns and develop a comprehensive feedback system for those firms that offer constructive comments.

6. Target the appropriate segment of industry (those companies most likely to participate in mass production) to receive draft specifications for their comments. All industry comments on specifications received at any time in the process should be responded to in writing and a file maintained for future reference.

7. Contractors must be able to communicate at any time directly with Natick (the technical activity) without the delays associated with going through the contracting officer regarding technical issues of the specification.

8. Award production test contracts for appropriate new end-items and fabrics. Streamline the problem resolution process and finalize new specifications only upon demonstrated mass producibility.

9. Establish an Industry-Government Advisory Committee on C&T with a subcommittee dedicated solely to specification development and maintenance.

IV. Contract Administration

A. Findings and Conclusions

It seemed that whenever our discussions turned to specifications, we inevitably ended up discussing the quality control reporting process. The Defense Contract Administration Services (DCAS) role is often criticized throughout the C&T industry. Its administration of contracts varies widely from region to region. Moreover, it often serves as an unnecessary layer of bureaucracy that contractors must wade through before getting an answer from DPSC or Natick. Efficient decision-making is essential for successful business relationships. In commercial practice, production-stopping problems are resolved immediately. In addition, the C&T industry does not operate in an environment which mandates perfection. Overt Government actions, such as the "no waiver" policy and the layered decision-making process prohibit or frustrate the necessary flexible and timely solutions to contract problems such as minor nonconformances and specification deviations.

1 DEC 1988

As for its personnel, we find that Quality Assurance Representatives (QARs) are often required to inspect a wide variety of items, and are not dedicated to the C&T commodity area. This often leads to undertrained and inexperienced QARs. We find that those QARs who spend much of their time on C&T items or have years of experience are well trained and understand the product, its design and function. These inspectors have the capability to make knowledgeable judgement on end item quality and valuable recommendations to the contracting officer about waiver requests. However, all QARs have been denied the authority to apply experience, judgement, and common sense in the evaluation of end items. In commodities other than C&T, this authority exists. Yet, 90% of the C&T nonconformances found are so minor and inconsequential that escalating these decisions to the upper echelons of the bureaucracy does little but waste precious time. We conclude that the QAR should be sufficiently qualified and given the responsibility to make knowledgeable determinations about product quality on the spot.

On the subject of testing, we have found, in our experience, that the Government's own laboratory is overburdened and therefore incapable of performing its current functions in a timely manner. Great delays in lab testing are routine, and often this testing is unnecessary. Moreover, the Government habitually requires first article inspection and testing even from reliable experienced sources on the same product.

We conclude that the quality control process is not responding well to either industry or the Government. Inspectors are undertrained and inefficiently utilized. The bureaucracy which has been created further stymies the process and causes inconsistent results and [illegible]. The labs run by the Government are also inadequate to meet its needs. Finally, the Government tends to test more than is required. All these problems add up to costly delays for contractors, driving them away from doing business with the Government, and interfering with the flow of supplies to the customer.

B. Recommendations

1. QARs should be properly trained in C&T, and dedicated, if possible, only to the C&T commodity areas.

2. QARs should have authority to make determinations on-the-spot regarding minor nonconformances.

3. QARs should provide quick responses to the contractor (pick up the telephone or use the fax machine versus the paperwork maze) regarding technical issues by contacting the appropriate decision making authority directly.

4. Maximize use of source sampling of components to improve the process.

5. The Government should accept test results from independent commercial Qualified Laboratory List (QLL)-certified laboratories for verification and use the DPSC laboratory to perform critical tests and confirm quality control on the QLL laboratories.

6. The "no waiver" contract policy should be rescinded because it does not allow the latitude to make an informed judgement when that is in the best interest of the Government.

7. First article requirements should be waived for producers with a proven performance record manufacturing the same or similar items.

8. Conditional first article approval should be permitted when nonconformances are minor and the purpose of the first article is accomplished as stated in the Federal Acquisition Regulation.

V. Contract Methods

A. Findings & Conclusions

Contracting methods which do not serve the Government's interest in procuring uniforms are at the heart of the problem we set out to study. Unlike private industry, the Government is precluded by statute from developing long-term relationships with successful suppliers. In addition, in order to further goals other than those stated at the outset regarding the product and the industry, the Government must use its contract dollars to encourage the development of small and minority businesses. While industry believes that these contracts can hamper the Government's ability to spend its money most efficiently, there are still ways to improve the contracting process even within the statutory status quo. The key is to encourage stability within the marketplace.

The Government has several tools at its disposal which could regularize business relationships. For example, the Government currently uses predominantly 1-year, sealed bid contracts which place a great deal of emphasis on price. When the Government does award multi-year contracts, they usually do not include an economic price adjustment clause, making them very risky to industry with a corresponding risk to the Government of contractor failure. The Government too often makes awards for the full requirement of an item to only one supplier, leaving itself vulnerable should the supplier fail. Finally, no matter what method of contracting is used, the Government tends to drag out the contracting process; meanwhile contractors are expected to hold open their bid. Such delays can be extremely expensive. We conclude that the Government should use more creative contracting methods which are tailored to particular procurements.

Much of our discussion focused on the quality of contractors that bid on uniform procurements. Often reliable contractors are underbid by companies that are not technically capable of performing the contract. Moreover, with regard to small businesses, the Government often makes their success more difficult by giving them too much responsibility in the beginning, and then taking it all away once they are successful having outgrown the small business category. We conclude that these labels (small business, small-disadvantage business, 8(a) firm) tend to mask the real goal of these programs, which is to help companies that need help. The limitation which precludes small businesses from subcontracting more than 50% of the work on a contract is in conflict with standard commercial practice. There should be no limitation on subcontracting to other small businesses. Furthermore, the requirement that DPSC must contract a large percentage of its work with small and minority businesses impacts its ability to accomplish the mission of procuring quality uniforms on time. We conclude that there ought to be a more strategic approach to assist small and minority businesses. We also conclude that there should be some effective method, aside from the preaward determination of responsibility, for weeding out contractors that do not have the capability to perform the work.

We found that one way in which unstable contractors are able to bid on Government contracts is due to the use of progress payments. While progress payments are a useful contracting tool and are necessary in some circumstances, they should not regularly be used to make an otherwise financially nonresponsible contractor responsible. The Government has lost millions of dollars due to forfeiture of progress payments. The administration of progress payments varies from DCAS region to DCAS region, causing contractors more uncertainty. We found that progress payments often were not closely tied to the contractor's payment of subcontractor invoices. We therefore conclude that the use of business judgment on individual procurements with regard to progress payments is essential to their success. Finally, we found that the Government relies heavily on Contractor Furnished Material (CFM) when a more flexible approach toward the use of Government Furnished Material (GFM) is necessary.

B. Recommendations

1. The Government should make multiple awards on items where there are large requirements in order to safeguard against the failure of a sole supplier and to keep in place a sufficient industrial base for any given item.

2. The Government should award more multi-year contracts to stabilize business relationships with reliable firms, as long as such contracts contain economic price adjustment provisions to make them tenable for industry.

3. The Government should continue to experiment with other procurement mechanisms, such as the two-step sealed bid and negotiated procurement methods, as long as these do not cause unreasonable delays in the award process.

4. If negotiation is used, the Government should quickly inform those offerors of their competitive range status so they can inform their suppliers.

5. On each product or class of closely related products, the Government should initially set aside small quantity/dollar contracts to new producers to develop their capability to perform and manage the work. This will provide a technically capable base to which the Government can turn for future awards.

6. The Government should selectively use the leader-follower contracting mechanism to facilitate new contractors learning the C&T business from established firms.

7. Awards made under small business set asides should not restrict subcontracting to other small businesses.

8. The Government should decrease the number of C&T procurements which must be set aside for small and minority contractors.

9. The Government should more carefully consider the use of progress payments, limiting them to contracts with economic necessity, such as large outlays, contracts with long lead times, and contracts for complex items.

10. The Government's administration of progress payments should be consistent across the DCAS Regions.

1 DEC 1988

11. The issuance of progress payments should be more closely tied to proof of subcontractor payments for materials, supplies, and progress.

12. The Government should be flexible with regard to whether GFM or CFM should be used.

13. The Government should recognize that the use of GFM is similar to a progress payment, thus contractors should receive both only in the most exceptional circumstances.

14. The Government should devise a marketing plan to attract established firms that are not currently in the Government contracts business to bid on its contracts, using this report and the progress made on its recommendations as a selling point.

15. DoD should request the Small Business Administration to process Certificates of Competency concurrently.

16. The Government should identify the individual causes of delay in the preaward phase of the acquisition process and take action to reduce or eliminate them.

VI. Budget

A. Findings and Conclusions

[illegible] investigated three facets of the budget process [illegible] delays in C&T procurement. First, we found that the actual award or funding of contracts when the solicitation or commitment for an item is made to industry was not timely. This can cause a delay of 2-6 months in the acquisition process and place an undue burden upon the bidders who are forced to extend their offers despite changing market conditions while awaiting the decision for an award. Second, the funds available in the Defense Stock Fund have decreased in the last few years due to such things as fluctuating oil prices and older, less expensive clothing items being replaced by more expensive new items. Third, we found that C&T does not compete on an equal basis with most other procurements in the budget process. With the exception of specifically fenced funds for bag items in the Service Operational & Maintenance (O&M) budget, all other C&T requirements can be lost in the overall O&M budget. We conclude that the current process of allocating Defense Stock Funds to DPSC on a quarterly basis and in equal amounts is causing delays in the award of contracts. Moreover, the Defense Stock Fund is underfunded. Finally, because of the manner in which C&T is treated in development of all Service Program Objectives Memorandum (POM), specifically not having a line item, arbitrary cuts can be made in the O&M budget with devastating impacts on C&T procurement.

B. Recommendations

1. DLA should ask Congress to recognize that inventory modernization for C&T is not unlike inventory modernization for hardware items, and that funds for inventory augmentation are required to accommodate new item price increases.

2. DLA should provide the buying command with quarterly Defense Stock Fund allocations that correspond to the contracts planned for award during each particular quarter of the fiscal year.

1 DEC 1988

3. The Army should develop a separate budget line item for C&T in their POM so that C&T (other than bag items) does not get lost among other O&M budget priorities.

4. The Army and DLA should better coordinate C&T requirements in their POMs so that more accurate budget planning can be accomplished.

VII. Management

A. Findings and Conclusions

Management is the area where we found the most divergence between the Government's and industry's approach toward doing business. We determined that basically, the Government's uniform procurement process is organized by function: Natick prepares the specifications, DPSC awards the contracts, and DCAS administers them with DPSC's assistance. DPSC and DCAS are separate organizations which are subordinate to the DLA, and Natick is an Army activity subordinate to Troop Support Command (TROSCOM). By splintering this management of the procurement of uniforms, the Government has diffused responsibility and accountability for their successful acquisition. Consequently, it is difficult to hold any one activity responsible or to resolve a problem quickly. Thus, the same problems occur repeatedly. From industry's perspective, this splintering of responsibility adds time to the process thereby costing bidders money, and creates confusion due to the multiplicity of levels and players in each organization.

This decentralization of management [illegible] a fundamental philosophy of procurement with which industry is at great odds. This philosophy is that each function performed -- that is writing specifications, awarding contracts, and administering contracts -- is independent more than it is overlapping with the others. From industry's viewpoint, both in dealing with the Government and in the way we organize ourselves, that is not the case. Writing/interpreting the specifications, awarding/winning the contract, and administering/performing the contract are all part of the same process.

As we discussed earlier in this report, the specifications are no good unless the items are mass produceable, but we do not learn this until the contract administration stage.

While a contractor may look good on paper, in contract administration that same contractor may be a nightmare because it really was not capable of performing in the first place. We conclude that in order to have successful contracts, the Government must demand superior performance at each stage in the process, and must integrate these functions more closely. A team approach toward the procurement of particular items would focus expertise, responsibility, and communication with industry in one management unit, while eliminating unnecessary layers of bureaucracy.

In addition, on a more individual level, the Government must evaluate its employees based on the success of the contract, not just on their ability to complete their portion of the process as viewed in a vacuum. If a contract fails after it has been awarded due to faulty, but timely completed specifications, then the failure should be reflected in the annual evaluation of the employees who prepared the specifications. Moreover, we found the Government's use of subjective, rather than quantifiable performance standards hinders the

Government's ability to adequately and accurately rate the performance of its employees. Industry regularly employs quantifiable performance standards and group performance to evaluate its employees.

Moreover, we found that the Government does not develop its employees (civilian and military) in the C&T commodity area. They are not rewarded for staying in the C&T area. Rather, these lower level employees have very little responsibility and are "micro-managed." This management structure frustrates industry because we usually interface with the Government at a low level, and consequently must await approval throughout the upper echelons of the bureaucracy before receiving answers and decisions. A perfect example of this problem can be found in the QAR situation discussed earlier in this report.

Finally, at high management levels, there is little evidence of interaction between the Government and industry. In the past, this lack of communication has caused delays and misunderstandings which have been deleterious to conducting business. This breakdown in communication at the higher levels has led to a disintegration of trust between the Government and industry. Consequently, many firms have left the Government contracts business. We conclude that a regular forum for a continuing dialogue between the higher levels of industry and Government must be established.

B. Recommendations

1. Management should be reorganized so that it is divided by product group rather than by function.

2. A team approach has worked well in industry and it is suggested for use in the Government. The team would consist of a team leader, a contracting officer, a technical specialist, an item manager, a contract administrator, quality assurance representatives, and a direct interface with the specification preparing activity. The team would be responsible for a particular item after development through end use. The team would serve as a focal point for industry. The team should assure continuing proper specification maintenance (e.g., amendments). The team would have authority to accept waivers on minor nonconformances in components (including cloth) and on end items which do not significantly affect form, fit, or function. The Army and Air Force Exchange System procurement organization might serve as a model.

3. The Government should employ quantitative performance evaluation standards for its employees, as individuals and in teams. This evaluation should include a critical element measuring team performance.

4. The Government should take into consideration a contract's long term success, rather than the achievement of intermediate goals, when evaluating employees involved.

5. The Government should generally streamline/expedite the decision-making process by eliminating useless layers in the bureaucracy by eliminating the paper pushers. If there is no value added, eliminate the position.

6. More decision authority commensurate with responsibility and expertise should be concentrated at the lower levels of the contracting

organization where contact with industry takes place regularly so that quick answers/decisions can be made.

7. An Industry Advisory Committee should be established to facilitate communication between industry and the Government, with a subcommittee dedicated to resolving special problems. We envision this Committee would meet quarterly and consist of representatives from all segments of the C&T industry. No Committee member would serve in excess of 2 years.

VIII. Conclusion

I would hope that the findings, conclusions and recommendations rendered in this report are received as constructive criticism directed at improving the C&T acquisition process and not as an indictment of the system as a whole. It is apparent from the recommendations that—the system can work, it just needs to be refocused. Government emphasis directed at making the system responsive to the needs of both industry and Government is required. This is applicable to all Services, not just the Army. Rigid policies that allow no room for flexibility or finding common ground are self defeating. Escalating decision-making authority to higher than necessary echelons consumes time and is counterproductive. It begs the question, "Where is the 'value added'?" Simply stated, I (industry) can afford to be complicated, you (Government) cannot; but the existing system works in just the opposite direction.

This report did not elaborate on or make any recommendations in one area; that is the area of Congressional legislation. Industry believes there is a need for certain restrictive legislation and that this is good for the country. However, there are occasions when restrictive legislation serves little useful purpose and is not in the best interests of the Government or the people it serves. In this regard, industry could provide assistance to the Department of Defense and DLA, to support good legislation and defeat bad legislation through its major trade associations -- the American Apparel Manufacturers Association and the American Textile Manufacturers Institute.

In summary, I would like to say that all industry members who participated in this study agree that it has been an excellent first step in establishing a healthy nonadversarial dialogue between the C&T industry and Government. This dialogue was open and objective and must continue if appropriate cooperative relations with industry are to be realized.

I would appreciate receiving a status report on the implementation or current status of the recommendations made in this report by March 1989.

William V. Roberti

William V. Roberti

CHECKED BOX APPLIES

☒ ORDER FOR SUPPLIES OR SERVICES

☐ REQUEST FOR QUOTATIONS NO.
RETURN COPY(IES) OF THIS QUOTE BY
(THIS IS NOT AN ORDER. See DD Form 1155r)

PAGE 1 OF 2

1. CONTRACT/PURCH ORDER NO. DLA600-88-M-5084

2. DELIVERY ORDER NO.

3. DATE OF ORDER 88 SEP 14

4. REQUISITION/PURCH REQUEST NO.

5. CERTIFIED FOR NATIONAL DEFENSE UNDER DMS REG 1 DO

6. ISSUED BY CODE
DEFENSE FUEL SUPPLY CENTER
CAMERON STATION
ALEXANDRIA, VA 22304-6160
DFSC-PSB

7. ADMINISTERED BY (If other than 6) CODE

8. DELIVERY FOB
☐ DEST
☒ OTHER
(See Schedule if other)

9. CONTRACTOR/QUOTER CODE FACILITY CODE

NAME AND ADDRESS
Mr. William V. Roberti
Brooks Brothers
246 Madison Avenue
New York, NY 10017

10. DELIVER TO FOB POINT BY 30 Nov 88

11. CHECK IF BUSINESS IS
☒ SMALL
☐ SMALL DISADVANTAGED
☐ WOMEN-OWNED

12. DISCOUNT TERMS Net

13. MAIL INVOICES TO

14. SHIP TO CODE
See Page 2

15. PAYMENT WILL BE MADE BY CODE
Will be added by modification

MARK ALL PACKAGES AND PAPERS WITH CONTRACT OR ORDER NUMBER

16. TYPE OF ORDER

DELIVERY ☐ This delivery order is subject to instructions contained on this side of form only and is issued on another Government agency or in accordance with and subject to terms and conditions of above numbered contract.

PURCHASE X Reference your furnish the following on terms specified herein, including, for U.S. purchases, General Provisions of Purchase Order on DD Form 1155r (EXCEPT CLAUSE NO. 11 APPLIES ONLY IF THIS BOX ☒ IS CHECKED, AND NO. 14 IF THIS BOX ☐ IS CHECKED); special provisions ; and delivery as indicated. This purchase is negotiated under authority of 10 USC 2304(a)(3) or as specified in the schedule if within the U.S., its possessions or Puerto Rico; if otherwise under 2304(a)(6).

☐ If checked, Additional General Provisions apply. Supplier shall sign "Acceptance" on DD Form 1155r and return

17. ACCOUNTING AND APPROPRIATION DATA/LOCAL USE
To be added by modification

18. ITEM NO.	19. SCHEDULE OF SUPPLIES/SERVICES	20. QUANTITY ORDERED/ ACCEPTED*	21. UNIT	22. UNIT PRICE	23. AMOUNT
	See Page 2 Provides services and a final report in accordance with objectives and procedures set forth in attached work statement.				

* If quantity accepted by the Government is same as quantity ordered, indicate by ✓ mark. If different, enter actual quantity accepted below quantity ordered and encircle.

24. UNITED STATES OF AMERICA
BY: Brian DeLong CONTRACTING/ORDERING OFFICER

25. TOTAL $1.00

29. DIFFERENCES

26. QUANTITY IN COLUMN 20 HAS BEEN:
☐ INSPECTED ☐ RECEIVED ☐ ACCEPTED, AND CONFORMS TO THE CONTRACT EXCEPT AS NOTED

DATE SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE

27. SHIP. NO.
☐ PARTIAL
☐ FINAL

28. D.O. VOUCHER NO.

30. INITIALS

31. PAYMENT
☐ COMPLETE
☐ PARTIAL
☐ FINAL

32. PAID BY

33. AMOUNT VERIFIED CORRECT FOR

34. CHECK NUMBER

35. BILL OF LADING NO.

36. I certify that this account is correct and proper for payment.

DATE SIGNATURE AND TITLE OF CERTIFYING OFFICER

37. RECEIVED AT

38. RECEIVED BY

39. DATE RECEIVED

40. TOTAL CONTAINERS

41. S/R ACCOUNT NUMBER

42. S/R VOUCHER NO.

DD FORM 82 SEP 1155 PREVIOUS EDITIONS ARE OBSOLETE.

ESTABLISHMENT OF A UNIFORM PROCUREMENT COMMISSION

PURPOSE

The Uniform Procurement Commission is established for a period of 90 days as a joint industry - Government forum to analyze current uniform procurement practices. The Commission will provide the Under Secretary of the Army recommendations on reducing uniform acquisition cycle time and improving the uniform procurement process as a whole.

STRUCTURE

The Commission will be composed of 5-7 executives from industry and 4-5 Government representatives. Industry representation will be provided from all segments of the clothing and textiles commodity area to include trade associations. Government representation will be provided by HQ Defense Logistics Agency (DLA); Defense Personnel Support Center; Deputy Chief of Staff for Logistics, Department of the Army; U.S. Army Natick Research Development & Engineering Center; and U.S. Army Program Manager - Clothing & Individual Equipment. The Deputy Director for Acquisition Management, DLA, will serve as Chairman of the Commission. Other participants may be requested to participate on an invitational basis, as required.

OBJECTIVES

- Identify ways to reduce the clothing acquisition cycle time.
- Identify ways to improve the clothing specification development process.
- Recommend systemic improvements to the uniform procurement process as a whole.

PROCEDURES

- The Commission will meet at the call of the Chairman one day a week/biweekly commencing 15 September for a period not to exceed 90 days.
- The Commission will draw on outside technical support as required. Army elements are requested to provide full support and cooperation.
- A final report of the Commission's findings and recommendations will be provided to the Under Secretary of the Army not later than 30 November.
- DLA will provide the Executive Secretary to the Commission. The Executive Secretary will arrange for required administrative support.

INDUSTRY PARTICIPANTS
UNIFORM PROCUREMENT STUDY GROUP

Mr. Gordon Bronstein
Reeves Brothers, Inc.
1271 Avenue of the Americas
New York, NY 10020

Mr. Ronald Floor
Mr. Hardy Poole
American Textile Manufacturers
Institute
1801 K Street, NW, Suite 900
Washington, DC 20006

Mr. Ernest Hall
Dixie Yarns, Inc.
Rex Mills
P.O. Box 699
Ranlo, NC 28053-0699

Mr. Kerry Kehoe
Mr. James Miller
E. I. DuPont de Nemours & Company
Textile Fibers Department
10017 Market Street
Wilmington, DE 19898

Mr. John Nicholson
Tennessee Apparel Corporation
P.O. Box 670
Tullahoma, TN 37388

Mr. C. W. Oliver
Burlington Industries, Inc.
Raeford Uniform Fabrics
1345 Avenue of the Americas
New York, NY 10105

Mr. William V. Roberti
Brooks Brothers
346 Madison Avenue
New York, NY 10017

Ms. Audrey Roberts
Martin Manufacturing Co., Inc.
P.O. Box 350
Martin, TN 38237

Mr. Harold Rosenbaum
Kings Point Manufacturing Co., Inc.
280 Northern Boulevard
Great Neck, NY 11021

Mr. [illegible]
Lanier Clothes
A Division of Oxford Industries
222 Piedmont Avenue, NE
Atlanta, GA 30308

Mr. Jeffrey Weinsten
Winfield Manufacturing Co., Inc.
350 Fifth Avenue
Suite 6608
New York, NY 10118

Encl 2

General **Voorhees**. The so-called Stone Report had five topical areas which they addressed. The areas were specifications, contract administration, contract methods, budget issues, and management. We have a number of action items within the Defense Logistics Agency as a result of their recommendations, and they made a number of recommendations in each of those subject areas which we are currently assessing and in some cases already pursuing. I think while there are no great surprises in that report, there are a number of substantive issues that have now gotten significant senior management visibility which will help us to pursue some of the things we had already started, one of which issues is the specification issue.

So to that extent, that report will be of value to us as we intend to pursue those issues.

Mr. **Lancaster**. I am on the Small Business Committee and I believe you have testified there before. During that hearing we heard testimony about the circumvention of the small business set-aside by various means of fraud, and of course the previous witnesses indicated that in at least two of those cases that was the situation. What other efforts are being made to ensure that small business set-asides are not being circumvented by big business in various ways, and have there been any other prosecutions?

General **Voorhees**. By circumvention you are talking about dummy small businesses?

Mr. **Lancaster**. Right.

General **Voorhees**. We have no other indications at this point of other businesses that are at that margin in playing the difference at some nominal value, 500 in our case.

The only remedy that we have in this regard is the vigilance that Mr. Dennis spoke of and the specifics of putting our people into the contractor's plant, looking at their capacity, looking at the people they have on board in the pre-award process and so forth, to assure ourselves that the numbers look reasonable and that on a continuing basis we are not encountering the same contractors either in tandem on awards or appear to have strange working relationships. Because we do have quality assurance folks and we do have contract administrators out in the field who can avail themselves of the opportunity to look around, we will use that as a mechanism. So we concentrate very heavily on the communications between ourselves and other activities like the contract administration service in all of the nine regions around the United States to help be our eyes and ears.

Mr. **Lancaster**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Lancaster.

General Voorhees, Colonel Caputa, Captain Kuhns, Mr. Molino, we thank you very much for your statements and your response to our questions today. As you can see, we are very interested in what goes on here. In that connection, I expect that we will hold a hearing during the next session of Congress to determine the progress being made by the DPSC in changing their business practices. We hope you will continue to do what you are doing and even go beyond that. Some of these things, it seems to me, would not take a long time to correct.

So we thank you for doing that and we expect you to do that and we appreciate very much your being here. We have other questions that we will present to you for your response for the record.

Question:

In General Voorhees statement he mentions that a senior executive position for an acquisition professional was created at DPSC to oversee the entire acquisition mission. I presume by your title that you are that person.

Could you describe for the members your qualifications and experience that resulted in your selection?

When were you appointed to this position, and what have been your accomplishments to this date?

Have you noted any problems or feel that there could be similar problems in the medical and subsistence directorates?

Answer:

My experience includes over 23 years in the acquisition field. In addition to 10 years with the Navy in a broad array of buying positions and commodities, my other Federal government positions include Chief of Regional Contract Administration at the Department of Commerce, Deputy Director for Procurement with the Department of Justice, and Chief of Headquarters Procurement Operations and Chief of Acquisition Policy and Quality Assurance at the Environmental Protection Agency. Prior to my competitive appointment to my current position in May 1987, I was the Director of Contracting at DPSC, a senior staff position responsible for center-wide procurement policy, contracting quality assurance, and cost and price analysis. In addition to my federal government experience, I worked in private industry in both prime and subcontract management with a multi-national architect/engineering and construction firm.

Throughout my career, I have had the opportunity to design, develop and implement successful procurement strategies to solve complex and persistent acquisition problems. I formulated the initial procurement strategy for the EPA nationwide hazardous waste SUPERFUND program. I implemented the new FAR and agency-specific procurement policy for the EPA. In private industry I developed and implemented a corporate procurement system for both subcontracting and purchasing, as well as a procedure for the analysis and control of business risk and liability for prime contracts.

At DPSC, I have designed and implemented a comprehensive acquisition program which includes an aggressive outreach program to rebuild and expand the C&T industrial base. The contracting success of this effort to date has introduced over 25 new firms making military uniforms. To attract and sustain quality producers, I have instituted several new procurement strategies such as long-term contracting techniques, unique multi-source contracting, negotiated procurements using selection factors for best value buying and an innovative commercial buying experiment utilizing industry-type specifications and processes. These strategies have been the vehicles for reaching the new firms and for stabilizing their participation in the reconstituted industrial base. The multi-sourced contracts, which incorporate features designed to stimulate and sustain timely, quality performance, are working. Three such contractors are producing quality BDU caps with accelerated deliveries. The first commercial buying experiment elicited four first-time participants, one of whom is a nationally known brand name manufacturer.

In addition to implementing the new organizational change in acquisition approval authorities which expand and diversify the participants and decision-makers in the procurement process, I have directed the implementation of an advance acquisition planning system. This system requires the corporate involvement of key line and staff offices in the generation of requirements and allows for the application of optimum procurement strategies using innovative procurement techniques coupled with long-term contracting.

DPSC's new acquisition program represents a fundamental change in the way business is conducted. While it was originally applied to the C&T recovery effort, it has been implemented in its entirety across the Center to include the Medical and Subsistence Directorates. While problems of the type and magnitude discovered in C&T are not apparent in these commodities, as a smarter way to do business, it should serve at least to impede any such similar efforts to manipulate the procurement process and help preserve its integrity.

Question:

Information provided to the subcommittee by DPSC includes tables for overall stock availability and bag item availability. The percentages for both differ for each of the military departments from FY 1985 through December 1989. For example, during FY 1987 the Air Force's overall stock availability was 86.9 percent and bag item availability was 82 percent.

Would you please explain the difference between these two measurements and reconcile the percentages?

Answer:

Bag item availability is a subset of overall availability. Because providing initial issue clothing items to recruits is one of the most important parts of our mission, we track our performance there separately. Bag item availability statistics measure our ability to support the needs of all our customers for bag items on an immediate basis. The overall availability figure includes not only bag items, but all the other items we supply, including tents, helmets, flags, medals and insignia. When we are more successful at supplying these needs than our customers' needs as a whole (as we are currently), our bag item availability will exceed our overall availability. In your question, you refer to the opposite circumstance. In FY 1987 we suffered a major setback in our support of the Air Force due to the bankruptcy of our major supplier of fatigue uniforms for the Air Force. As a result, our Air Force bag item availability dropped sharply; but since we continued to supply flags and medals and other non-bag items to the Air Force at a more acceptable level, our overall supply availability did not fall as low. For the past few months, our bag item availability has consistently exceeded our overall availability because our recovery efforts have been focused primarily on those items.

Question:

It appears that one of the more significant steps taken to expand your production base was to award contracts to large companies such as Van Heusen and London Fog.

How was this accomplished since before the fraud over 70 percent of the dollar amount of your contracts was small business set asides?

Answer:

Our small business set aside rate was 70 percent for fiscal year 1985. For fiscal year 1988, when the awards to Van Heusen and London Fog were made, we set only 41 percent of our awards aside for small business (although we actually awarded 78 percent of our dollars to small businesses). For fiscal year 1989, our set-aside goal is 45 percent. There is no conflict between the awards we made to large firms and the discharge of our socio-economic responsibilities. We only set aside awards for items when we have access to adequate sources of supply in the small business community. In those instances in which we lack sufficient sources we have always had the ability to issue unrestricted solicitations. The focus of our recovery effort has been to attract new producers, not necessarily large producers. Because the vast majority of apparel manufacturers in the United States (approximately ninety percent) qualify as small businesses, we would expect that we will continue to make most of our awards to small business. In order to fulfill our mission, we need to do business with sound, responsible firms, regardless of their size. I should point out that since September 1988, we have been operating under a deviation from the application of Federal Acquisition Regulation (FAR) and the Department of Defense FAR Supplement 19.501(c), 19.501(g) and 19.502. This deviation, granted by our agency under the Model Installation Program, frees our contracting officers of the responsibility to make set-aside determinations on our most critical items, including dress clothing, initial issue utility clothing, battle dress uniform items and protective helmets. In addition, section 721 of Public Law 100-656, enacted on 15 December 1988, provides that, for Clothing and Textiles awards made during fiscal years 1989, 1990 and 1991, "(t)o the maximum extent practicable, 50 percent shall not be restricted by the size status of the competing business concerns." This will insure that firms of all sizes have access to our acquisitions.

Question:

In his statement General Voorhees notes that all major acquisitions are now long term contracts, presumably multiyear contracts, and awards are being divided among multiple producers.

What is the number and dollar value of the multiyear contracts and how many multiple producers does DPSC have?

Answer:

During fiscal year 1988, we awarded forty-nine long-term contracts valued at approximately $360 million; we placed multiple awards for thirty-nine items with a value of approximately $280 million. In fiscal year 1989, we expect to award an additional forty-one long-term contracts with a first-year dollar value of $565 million and a life-of-the-contract value of approximately $1.1 billion. We also expect to award multiple contracts for eleven items, with a value of $378 million.

Question:

It is my understanding that DPSC is utilizing a two-step sealed bidding process to attract commercial sources that have not been interested in producing to military specifications.

Could you describe for us how this process works and how many contracts have been awarded to new commercial sources using this process?

We used the two-step sealed bidding mechanism on a one-time basis in order to reconstitute our production base for dress coats. We found ourselves unable to develop new sources because the vast majority of coat manufacturers use production methods that were not compatible with our specifications. We attempted to resolve the problem by allowing potential suppliers to submit proposals as to how they would produce our coats using their own methods - the so-called first step. A panel of experts, including service representatives, evaluated those proposals to determine their acceptability. Those offerors submitting acceptable proposals then submitted their prices - the second step. The low offerors received the awards. Through this process we placed awards for four different dress coats with five new producers. We now accomplish the same objectives through use of negotiation, without the high risk of failure associated with the inflexible sealed bid approach, allowing us to also negotiate price and other factors and to award on the basis of best value.

Question:

I am convinced that most federal employees are honest, hard working Americans and previous DPSC managers were highly educated and generally aware that procurement fraud can occur in any agency.

Considering these things, it is difficult for me to understand how this fraud, as massive as it was, continued on for such a long period of time.

I would appreciate any comments you could make that would help me understand how this happened?

Answer:

I have previously expressed the opinion that a major factor in making fraud possible was the vesting of authority in the hands of a few key individuals. The fact that these individuals were experts in their field, in my opinion, made it possible for them to escape detection for so long a period. Of course, we should have realized the potential for such abuse, and we should probably have noticed warning signs long before we did. I do think, however, that the overall decline of our Clothing and Textiles base over the years created a climate in which someone fitting the description of a strong, effective leader appeared to be just the kind of person we wanted to have in charge; and in which the concentration of power in such a person's hands seemed desirable rather than dangerous. As a practical matter, I also believe that use of a third party made detection much more difficult.

Question:

The DoD Inspector General testified in March 1988 in support of H.R. 2703, a bill that would reduce the percentage of DPSC Clothing and Textile contracts and dollars restricted to small business. The bill was also to reduce the number of employees used to define "small business" as it relates to the Clothing and Textile industry to some number less than the current threshold of 500.

Did that bill become legislation?

If not, would such legislation be of any benefit?

Answer:

Section 721 of Public Law 100-656, enacted in December 1988, establishes a ceiling of fifty percent on the dollar value of Clothing and Textiles awards to be set aside for award to small businesses. To my knowledge, no provision reducing the number of employees used to define "small business" was enacted. As I have earlier stated, our set-aside goal for Clothing and Textiles for fiscal year 1989 is forty-five percent. Since we have always had the ability to issue unrestricted solicitations when our small business production base was inadequate, I do not believe that the legislation will, by itself, have a major impact on our ability to accomplish our mission.

Question:

General, in your prepared statement you said that many Clothing and Textile contractors who did business with DPSC were poorly capitalized and vulnerable to failure. Aren't small businesses awarded contracts by DPSC required to disclose their financial and technical capabilities? Are these companies investigated and evaluated before a contract is awarded?

Answer:

Companies wishing to do business with the Government are, in fact, evaluated as to their financial and technical capabilities prior to award. However, those evaluations address only those conditions in existence at the time of the proposed award. They do not address, for example, the ability of the firm to withstand difficulties that might arise during the life of the proposed contract. We find that such difficulties as production problems and the loss of lines of credit often occur, and that marginally capitalized firms are not able to withstand these hardships. Currently, as a part of our new comprehensive acquisition program, we are attempting to get more complete information to predict the probable success of full contract production, and to use this information as a selection factor, in addition to price, to award best value contracts. This process allows DPSC to be in more control of its business decisions.

Question:

Do you require your employees and companies doing business with DPSC to adhere to a code of ethics? If so, please describe the procedures involved, and how are they enforced?

Answer:

Our employees must adhere to standards of conduct promulgated by the Defense Logistics Agency. They are required to attend briefings on these standards annually, and to certify their intent to comply. We do not require companies doing business with DPSC to adhere to a Government-developed code, but we have encouraged them to develop a code of their own. In fact, at the urging of the Defense Logistics Agency's deputy director for acquisition management, the American Apparel Manufacturers' Association has recently developed a draft code of ethics and recommended that its members adopt it or a version of it.

Question:

The subcommittee has been told that many quality assurance inspectors have been working at the plants so long that they forget who they are working for. How often are these inspectors rotated?

Answer:

The Defense Logistics Agency (DLA) is sensitive to the potential, real and perceived pitfalls associated with long term quality assurance personnel assignments to contractor facilities. DLA policy specifically identifies employees in positions of influencing the Government decision-making process as subject to rotation and charges Defense Contract Administration Services Region (DCASR) Commanders with responsibility for determining positions which should be rotated. Retention of quality personnel in DCASR identified positions beyond five (5) years requires justification, and subsequent annual review to determine whether circumstances have changed which would require the employee's reassignment. DLA policy restricts reassignment to former plants for at least two (2) years and allows separation of employees who refuse to accept reassignment without justifiable reasons.

Question:

In your prepared statement, you said that DPSC has implemented an "early warning system" that "nips problems in the bud".

Would you please provide some examples?

Answer:

Our early warning system focuses on critical events in the acquisition cycle, and monitors their accomplishment. If one of these critical events does not take place, the system so advises us and continues to remind us until the problem has been resolved and the acquisition is back on track. Recently, for example, we were unable to make awards for Marine Corps dress trousers on schedule. The system warned us that we had missed the target award date, and we were able to exercise an option on an existing contract to cover the expected shortfall. Similarly, when a contractor producing Navy dress jumpers submitted a failing first article sample, the system highlighted the problem. Our technical experts helped the contractor resolve his problems, and the acquisition proceeded on schedule.

Question:

How long does it take from the time a requirement for a uniform item is identified until delivery of the product is made to the military department. Are there any plans to reduce this time?

Answer:

The amount of time it takes to introduce a new item into our supply system varies according to the item and the needs of the requesting service. Complex items such as helmets take much longer than clothing items, for example; and if the service is willing to accept the item on an as-available basis, it can be supported much sooner than if the service insists that we build up levels of stock to support unrestricted issue of the item to all customers. I should point out that DPSC accounts for only a small part of the introduction process, since we are a procuring activity and do not develop item specifications. From the time that we receive the technical data package and requirements from the requesting service, it takes between twelve and eighteen months for us to receive our first delivery of the item, depending on how difficult the item is to manufacture.

Question:

We have been told that many good companies are reluctant to go through the lengthy contracting process and re-work their factories to take a one or two year contract. Are there any efforts to increase the length of the contracts?

Answer:

I have previously spoken about our acquisition planning system, which governs the vast majority of our major acquisitions. With rare exceptions, planned acquisitions will be long-term contracts. During fiscal year 1988, for example, we awarded forty-nine long-term contracts valued at approximately $360 million. In fiscal year 1989, we expect to award an additional forty-one long-term contracts with a first-year dollar value of $565 million and a life-of-the contract value of approximately $1.1 billion.

Question:

Your statement describes a long list of remedies to a long standing problem. You state that considerable progress has been made. Yet, we still hear of considerable shortages.

Are our Armed Forces doing without needed products?

Is one Armed Service experiencing more shortages than another?

When do you believe there will be an adequate supply of all items that are now in short supply?

Answer:

I am pleased to report that we are currently providing our customers with the best support that they have received since 1985. For eight consecutive months, our supply availability, the single best index of our support to our customers, has exceeded ninety percent, and in December 1988 we attained our goal of ninety-two percent. This is not to say that our support is as good as it could or should be; we are still experiencing serious shortages on a few dress clothing items, such as one of the three Marine Corps dress coats and spot outages of items such as Air Force women's slacks and white dress gloves. However, we have solutions in place for all of these items, and materiel is now beginning to flow to our customers. The Marine Corps is, at this time, the Service experiencing the most shortages; it is the only Service whose supply availability is lower than ninety percent. Since Clothing and Textiles has never, in its history, been without some problem items, I cannot predict when we will have an adequate supply of all items that are now in short supply. However, I firmly believe that our problems are behind us, and that all Services will be receiving from us the excellent support they deserve within the next six months.

Question:

I recognize that the Clothing and Textiles Directorate is one part of the Defense Personnel Support Center and that other organizations external to DPSC such as the Defense Contract Administrative Service are responsible for quality control inspections. However, can you tell the subcommittee the number of people and the amount of funds that are used in direct support of the Clothing and Textiles mission?

Answer:

There are approximately 540 people employed in our Directorate of Clothing and Textiles. They award contracts totalling approximately $1 billion annually, and account for total operations and maintenance expenditures of an additional $16 million annually. Since the majority of personnel outside the Defense Personnel Support Center who support the Clothing and Textiles mission divide their time among a number of different commodities, I cannot precisely fix the number of people who are in direct support. However, I estimate, on a unit cost basis, that our Agency expends an additional $42 million annually, for a total of $58 million in operations and maintenance expenditures, on our Clothing and Textiles mission.

Question:

In your prepared statement you describe a long-term problem with a complex set of built-in deficiencies. Please describe how the situation was allowed to deteriorate to the point where such severe shortages were experienced.

Answer:

Clothing and Textiles is a very long leadtime commodity. The results of an action (or the lack thereof) will typically become evident eighteen months or more later. To be sure, our production base declined steadily over a long period of time; but the results of that decline did not become evident until the deterioration reached the stage where what was left of the base could no longer support our customers' requirements. After that critical stage was reached, crisis management and band-aid solutions served to keep the commodity functioning at an acceptable, albeit diminished, level until the extent of the problem could no longer be masked.

Question:

The proposals to change business practices are impressive and substantial. DPSC has been doing business the same way for a long time.

Why did it take such a massive case of fraud to prompt changes to the systems used at DPSC?

Answer:

Prior to the uncovering of the fraud, the decline in Clothing and Textiles had given rise to the belief that the concentration of authority in a strong leader was required. So long as that belief was in force, the kind of reforms we have undertaken could not take place, since they have as their basis the decentralization of the decision-making process.

Mr. HUTTO. Thank you very much. The subcommittee stands adjourned until 9:30 tomorrow morning.

[Whereupon, at 11:40 a.m. the subcommittee was adjourned.]

UNIFIED COMMANDS (CINC)

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Thursday, March 2, 1989.

The subcommittee met pursuant to call at 9:30 a.m. in room 2216, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will please come to order.

Today we will continue our review of the 1990/1991 budget request but from a different perspective, that of the commanders in chief who must translate the budget numbers into warfighting capability.

This is the first year we have invited representatives of the CINCS to testify before our subcommittee and, given the proposals that have been surfacing concerning the future defense budgets, we will be turning to them for guidance more and more.

In the last few months we have seen several articles that advocate cutting near-term readiness in favor of long-term procurement. Well, our first two witnesses this morning represent the two largest organizations that would be affected by this strategy. We look forward to their views on the current Soviet threat, the near-term prospects for decreased tensions and their reactions to these proposals to reduce readiness levels.

We are also interested in their views on the current readiness levels of their forces and how the proposed Reagan/Bush 1990 budgets would impact on their operations.

Finally, we recently held a hearing on the Vander Schaaf Report on Unified and Specified Commands that recommended a number of consolidations and realignments. We are interested in receiving the views of the CINCS on this report.

This afternoon we will receive testimony from representatives of the commanders in chief for special operations and for transportation. We hope to cover the same issues with these CINC representatives as well as some ancillary areas.

CINCSOC is a new and altogether unique unified command. This subcommittee has been involved with the Special Ops Command since its birth, and we will continue to monitor its progress. If there are growing pains and problems we want to hear about them.

CINCTRANS is also a relatively new command and we want to explore its current status of readiness. We also want to explore in detail the Vander Schaaf recommendations concerning the consolidation potential of CINCTRANS and its component commands.

In the absence of our Ranking Minority Member, Mr. Kasich, we will admit his statement for the record.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

I would like to thank Chairman Hutto for calling this hearing and welcome our panel of witnesses from the unified commands. These gentlemen are going to have to give this subcommittee the very best guidance possible as we put together the fiscal year 1990 Readiness budget.

Mr. Chairman, there has been an unusual trend in the recent debate over defense priorities. A school of thought holds that both fiscal constraints and the world political situation dictate that the Readiness budget can be cut without harming our national security. If there is anyone capable of refuting that argument, it is these witnesses who are responsible for the day-to-day combat capability of our armed forces. I share the chairman's interest in their views on our readiness against the current threat. I am also interested in the witnesses providing us with their candid comments on the adequacy of the proposed Operations and Maintenance budget.

Finally, a hearing held by the subcommittee 2 days ago raised a number of issues concerning the staffing of our unified and specified commands. According to the Vander Schaaf Report, there are a number of economies that can be made in staffing the command headquarters. We need a candid assessment of these proposals as we consider the O&M budget.

Thank you, Mr. Chairman.

Mr. HUTTO. Since we have a number of topics to cover today, and some of them are classified, here is how I would like to proceed. We will hear from both witnesses, then have a round of questions which should take us to roughly 11 o'clock. We will then close to discuss the classified items on the agenda.

We are very pleased to have with us as our witnesses this morning Maj. Gen. Royal N. Moore, Jr., U.S. Marine Corps, J-3, Pacific Command and Lt. Gen. Edwin S. Leland, Chief of Staff Army, European Command.

We are delighted to have you both with us. You may proceed as you see fit. General Moore, would you like to present your statement?

STATEMENT OF MAJ. GEN. ROYAL N. MOORE, JR., U.S. MARINE CORPS, J-3, PACIFIC COMMAND

General MOORE. On behalf of Admiral Hardisty, I would like to express my appreciation to this committee for the opportunity to discuss the preparedness of forces in the Pacific Command. Our military presence helps to maintain regional stability, open lines of communication, and promote free commerce. Moreover, our forward deployed, ready and sustainable forces are a deterrent against aggression.

The century of the Pacific is now upon us. As a maritime nation, we seek alliances, friendships, and trade with Pacific nations. Over the years, we have succeeded through bilateral treaties, trade agreements, and security assistance programs. In each of these our military forces have made a noticeable contribution.

We contribute to the security of nations through combined exercises and training. Our fleets help maintain the sea lines of communication. The humanitarian contributions of our soldiers, sailors, airmen, and marines during and after natural disasters have not gone unnoticed by the peoples of our region.

I must report, however, that the threat to this peaceful region continues. Our forces have remained constant over recent years. However, the Soviet Union presents a strong and growing military force. While we are encouraged by Mr. Gorbachev's announcement to cut conventional forces, we in the largest U.S. warfighting command must look at military realities.

Soviet ground, air, and sea forces have modernized and grown. They have expanded their sphere of military influence to Vietnam, where Cam Ranh Bay remains the largest Soviet overseas deployment base. They have upgraded North Korean capabilities with modern Soviet technology and military hardware. The recent fielding of mobile ICBM's and arming of bombers with cruise missiles is additional cause for concern.

While we believe it is too soon to determine Soviet intent, we are convinced the preparedness of our forces is a key factor in the Soviet move toward reducing worldwide tensions. The Soviets respect the strength of our forces.

Maintaining our strength also encourages our friends and allies in the region. U.S. Forces are a stabilizing influence affecting the regional and sub-regional rivalries. Our continued strong military posture preserves U.S. influence and access. It underwrites the relationships vital to expanding U.S. exports.

Are our forces prepared to fight and win? Emphatically, yes. Our readiness is high, and leadership in the field is excellent. Our soldiers, sailors, airmen, and marines have demonstrated their ability for joint and combined warfare during exercises such as Team Spirit in Korea, Orient Shield in Japan, and Cobra Gold in Thailand. Our ability to sustain forces is slowly improving.

Mr. Chairman, I would like to ask this committee's help in maintaining this state of preparedness. Let me highlight a few items which we require to maintain our strength in the Pacific:

People Programs: Today's servicemen and women are of the highest quality I have seen in my 30 years of service. They are intelligent and motivated. We have a sizeable investment in their increasingly complex training. To maintain this quality we need to ensure they continue to be challenged by modern equipment. They must also receive pay and facilities considerations which reflect not only their significant contributions, but are competitive with civilian markets which vye for their talents.

Also required are continued modernization efforts in our major problem areas: antisubmarine warfare, surveillance and intelligence, air warfare with preferred munitions and strategic lift. We must stay these efforts on to keep ahead of the increasing Soviet threat and capabilities.

In the area of sustainability, increased stockage levels will decrease the risk of defeat in a protracted conflict.

Our preparedness, expressed as readiness is a derivative of the quality of our people and the extent to which they are provisioned, equipped, and trained. Maintaining a proper balance requires careful coordination of limited budget dollars. In order to maintain readiness, we're falling behind in such areas as real property maintenance and depot level maintenance of major end items. We're also stretching out procurement of ordinance limiting funds for exercises as well as training fuel.

The positive side of what we've been doing, however, is cause for great optimism. Modern equipment, such as the F-16 C and D, the F/A-18, AEGIS ships, and LCAC, are technological leaps in capability and are much easier to maintain. In the area of sustainability, the past 5 years have seen gains in modern munitions, war reserve spares, fuel storage, and strategic airlift and sealift. Through this decade, our investment in replacement spares has greatly improved the supply on hand. Army units report that half of their requirement is prepositioned, while Pacific fleet, Air Force, and fleet Marine Forces are almost fully stocked.

The need for constant vigilance in maintaining security in the Pacific Command requires a force that is both ready and sustainable. With the support of the Congress, we have diligently moved forward, even in the face of fiscal constraints. Our readiness remains high, while sustainability is getting better. Protecting these achievements is essential to maintaining peace.

In conclusion, Mr. Chairman, I'd like to recognize that congressional support of our Pacific Command Forces is largely responsible for their excellent readiness posture. Our people are motivated, trained, and equipped to provide a credible deterrent and a formidable warfighting force. We owe them our full support, especially in the quality of life area.

In the Pacific, the threat remains, but our Pacific allies and friends have great confidence that we will maintain the regional stability that has underwritten economic growth and democratic development. With your continued support, ready, sustainable U.S. military forces will continue to maintain peace in the region. Thank you.

PREPARED STATEMENT OF MAJ. GEN. ROYAL N. MOORE, JR., USMC

MR. CHAIRMAN:

I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY TO TALK ABOUT THE PACIFIC COMMAND. WE ALL SHARE AN ABIDING INTEREST IN PRESERVING AMERICA'S VITAL SECURITY STAKE IN THE PACIFIC. OUR MILITARY FORCES IN THE PACIFIC HELP MAINTAIN THE PEACE AND SECURITY OF THE REGION THROUGH THE MAINTENANCE OF A CREDIBLE DETERRENCE POSTURE. THIS DETERRENCE POSTURE IS BASED ON A SOUND STRATEGY OF FORWARD DEPLOYMENT AND HIGH FORCE READINESS. IN THESE UNCERTAIN TIMES WE NEED TO ENSURE THAT OUR MILITARY FORCES IN THE PACIFIC REMAIN READY, SUSTAINABLE AND APPROPRIATELY SIZED TO FULFILL OUR WIDE-RANGING SECURITY RESPONSIBILITIES.

INTRODUCTION

I WOULD LIKE TO FOCUS MY REMARKS ON THE INCREASING IMPORTANCE OF THE PACIFIC, THE THREAT TO PEACE AND STABILITY IN THE AREA, THE U.S. SECURITY POSTURE IN THIS PART OF THE WORLD, THE ROLE OF OUR FRIENDS AND ALLIES, AND CONCLUDE WITH A DISCUSSION OF OUR WARFIGHTING AND PEACETIME STRATEGY CONCERNS AS THEY RELATE TO READINESS AND SUSTAINABILITY.

AS YOU WELL KNOW, THE PACIFIC TODAY IS A DYNAMIC REGION UNDERGOING BROAD CHANGE. ALTHOUGH IT IS STILL A BI-POLAR THEATER DOMINATED BY THE U.S.-USSR MILITARY BALANCE, THE CONTINUED DEVELOPMENT OF REGIONAL AND SUB-REGIONAL POWERS SUCH AS JAPAN, CHINA, INDIA, AND SOUTH KOREA PLUS THE EMERGENCE OF THE SOUTH PACIFIC WITH ITS MANY NEWLY INDEPENDENT NATIONS MAKE THAT BALANCE MORE COMPLEX. THE EXPLOSIVE ECONOMIC GROWTH OF THE PACIFIC HAS MEANT THAT SOME OF OUR ALLIES AND CLOSE FRIENDS, WHO WERE ONCE ECONOMICALLY DEPENDENT ON US, ARE NOW AMONG OUR MOST VIGOROUS ECONOMIC COMPETITORS. THIS HAS PRODUCED NEW AND DIFFERENT PRESSURES WITHIN OUR ALLIANCE NETWORK.

ALSO, THE MOVE TOWARDS RELAXATION OF TENSIONS BETWEEN WASHINGTON AND MOSCOW HAS CREATED THE PERCEPTION AMONG SOME IN THE REGION THAT THE SOVIET MILITARY CAPABILITY IN THE PACIFIC IS NO LONGER A MATTER OF MAJOR CONCERN. SOME ARE BEGINNING TO QUESTION THE NEED FOR THE SOMETIMES DIFFICULT POLITICAL AND MILITARY EFFORTS SO NECESSARY TO MAINTAIN THE VIGOR OF OUR ALLIANCE FRAMEWORK.

OUR SECURITY STRATEGY IN THIS PART OF THE WORLD HAS, OVERALL, BEEN A SOLID SUCCESS FOR THE LAST FORTY YEARS. WE

BELIEVE THE PRINCIPAL TASK CONFRONTING US AT PRESENT IS TO DETERMINE THE NECESSARY ADJUSTMENTS IN OUR STRATEGY TO REFLECT TODAY'S NEW EMERGING REALITIES WITHOUT UNDERMINING A SUCCESSFUL GAME PLAN THAT HAS HELPED TO AVOID WORLD CONFLICT FOR THE LONGEST UNINTERRUPTED PERIOD IN THIS CENTURY.

IMPORTANCE OF THE PACIFIC

THE IMPORTANCE OF THE PACIFIC TO THE U.S. IS INDISPUTABLE. TRADE WITH THE PACIFIC HAS EXCEEDED TRADE WITH THE EUROPEAN ECONOMIC COMMUNITY FOR 17 CONSECUTIVE YEARS. OVER ONE THIRD OF ALL U.S. FOREIGN TRADE IS IN THE PACIFIC COMPARED TO ONLY A FIFTH WITH EUROPE. BY THE YEAR 2000, THE PACIFIC'S GROSS REGIONAL PRODUCT IS EXPECTED TO DOUBLE. ON THE SECURITY SIDE, SEVEN OF OUR TEN MUTUAL DEFENSE TREATIES ARE WITH PACIFIC NATIONS. ADDITIONALLY, SEVEN OF THE WORLD'S TEN LARGEST ARMIES AND OVER 60 PERCENT OF THE WORLD'S POPULATION CAN BE FOUND WITHIN THE PACIFIC AREA. THE U.S. HAS PLAYED A KEY ROLE IN THE DYNAMISM OF THE REGION BY DEVELOPING AND MAINTAINING CLOSE RELATIONSHIPS WITH MANY NATIONS. FORWARD DEPLOYED U.S. FORCES CONTRIBUTE SIGNIFICANTLY TO A REGIONAL STABILITY THAT ALLOWS DEMOCRATIC IDEALS AND ECONOMIC PROSPERITY TO FLOURISH.

THE THREAT

WE WOULD WELCOME A PEACEFUL SOVIET UNION THAT IS PREPARED TO CONTRIBUTE TO THE SECURITY AND DEVELOPMENT OF THE REGION. HOWEVER, AS A WARFIGHTING COMMAND WE MUST DEAL WITH THE REAL WORLD, AND RELY ON DEEDS RATHER THAN RHETORIC. SINCE 1986, THE SOVIETS HAVE ADDED THREE DIVISIONS TO THE FAR EAST MILITARY DISTRICT, BRINGING THE TOTAL TO 57. THE SOVIET PACIFIC FLEET, ALREADY THE LARGEST OF THE SOVIET FLEETS, CONTINUES TO INCREASE IN SIZE AND CAPABILITIES. MODERNIZATION EFFORTS INCLUDE THE LATEST FIGHTERS, BOMBERS, TANKS, PERSONNEL CARRIERS, AND SELF-PROPELLED ARTILLERY. IN EXCHANGE FOR SOVIET ACCESS AND BASING RIGHTS TO VIETNAMESE AIR AND SEA PORTS, THE SOVIETS ARE PROVIDING AID ESTIMATED TO BE IN EXCESS OF FIVE MILLION DOLLARS PER DAY. CAM RANH BAY ALONE IS THE SOVIETS' LARGEST NAVAL DEPLOYMENT BASE OUTSIDE OF THE USSR. FINALLY, THE SOVIETS CONTINUE TO UPGRADE NORTH KOREAN MILITARY CAPABILITIES WITH A STEADY INFUSION OF MODERN SOVIET TECHNOLOGY AND MILITARY HARDWARE.

IN SPITE OF THE CONTINUED MILITARY GROWTH, WE RECOGNIZE THAT RECENT DEVELOPMENTS SUCH AS THE INF TREATY AND VISITS BETWEEN TOP LEVEL U.S. AND SOVIET CIVILIAN AND MILITARY OFFICIALS POINT TO THE PROSPECT OF A MORE STABLE AND CONSTRUCTIVE DIALOGUE WITH THE SOVIETS. AND CERTAINLY PRESIDENT GORBACHEV'S DECISION TO CUT SOVIET CONVENTIONAL FORCE LEVELS IS A WELCOME ANNOUNCEMENT. BUT EVEN IF CARRIED OUT, PROMISED SOVIET TROOP CUTS WILL STILL LEAVE

A LARGE, MODERN, READY, HIGHLY CAPABLE MILITARY ESTABLISHMENT THAT BEARS WATCHING.

WE BELIEVE IT IS TOO SOON FOR US TO DETERMINE SOVIET SINCERITY. THERE IS STILL A WIDE GAP BETWEEN GORBACHEV'S RHETORIC AND ACTION. WHILE THERE MAY HAVE BEEN AN ANNOUNCED SHIFT IN THE STRATEGY AND INTEREST OF THE SOVIET UNION, THERE IS NO EVIDENCE THAT SOVIET CAPABILITY HAS DIMINISHED. IN FACT, THE FORCES WHICH THREATEN US DIRECTLY - THEIR PACIFIC LONG RANGE BOMBER FORCE ARMED WITH CRUISE MISSILES AND THEIR SUBMARINE FORCE - CONTINUE TO IMPROVE IN QUANTITY AND CAPABILITY. IN SHORT, THE THREAT OF SOVIET PACIFIC FORCES TO THE UNITED STATES AND ITS ALLIES REMAINS HIGH, EVEN IF ALL CURRENT INITIATIVES ARE FULLY CARRIED OUT.

AFTER CLOSE SCRUTINY, WE BELIEVE THE SOVIET MOVE TOWARD REDUCING TENSIONS HAS BEEN BROUGHT ABOUT BY OUR SUCCESSFUL U.S. STRATEGY AND OUR STEADFAST DEDICATION TO AN ADEQUATE SECURITY POSTURE. THE SOVIETS RESPECT STRENGTH AND WILL CONTINUE TO RESPECT IT, REGARDLESS OF THE ULTIMATE OUTCOME OF GORBACHEV'S INITIATIVES.

IN ADDITION TO SUCCESSFULLY DETERRING THE SOVIET THREAT, ADEQUATE U.S. MILITARY STRENGTH IN THE PACIFIC HOLDS ANOTHER BENEFIT FOR U.S. INTERESTS. MOST, IF NOT ALL, OF OUR FRIENDS AND ALLIES IN THE REGION SEE THE U.S. PRESENCE AS A STABILIZING

INFLUENCE AFFECTING ALL THE REGIONAL AND SUB-REGIONAL FRICTIONS AND RIVALRIES. EVEN EXCLUSIVE OF THE SOVIET THREAT, U.S. PACIFIC SECURITY POSTURE FOSTERS AND MAINTAINS THE POLITICAL AND ECONOMIC CLIMATE THAT WILL BE VITAL AS A FOUNDATION FOR STABILITY AND GROWTH IN THE REGION. A CONTINUED STRONG SECURITY POSTURE IN THE PACIFIC DOES MUCH TO PRESERVE U.S. INFLUENCE, ACCESS, AND LEVERAGE, ALL NECESSARY INGREDIENTS TO MAINTAINING TRADE RELATIONSHIPS VITAL TO EXPANDING U.S. FOREIGN EXPORTS TO THE REGION.

THIS IS NOT THE TIME FOR THE U.S. TO ABANDON OUR STRATEGY OF FORWARD DEPLOYED FORCES AND REDUCE OUR PRESENCE IN THE PACIFIC. REALITIES DEMAND THAT WE MUST HAVE A VIABLE, PEACETIME STRATEGY TO COUNTER SOVIET ECONOMIC AND DIPLOMATIC MOVES IN THE PACIFIC, WHILE AT THE SAME TIME SUBSTANTIALLY CONTRIBUTING TO THE REGIONAL STABILITY BASIC TO U.S. ECONOMIC AND POLITICAL INTERESTS.

U.S. SECURITY POSTURE

THE USCINCPAC PEACETIME STRATEGY SEEKS TO STRENGTHEN OUR ALLIANCES, EXPAND U.S. INFLUENCE, AND AID IN NATION BUILDING, THEREBY ENHANCING OUR MILITARY PREPAREDNESS. OUR MILITARY PRESENCE PROVIDES AN OPPORTUNITY TO USE OUR RESOURCES IN WAYS THAT PRESERVE U.S. INFLUENCE AND PROTECT U.S. ACCESS TO THE REGION. WE STRIVE TO BUILD FRIENDSHIPS THROUGH SUCH PROGRAMS AS

COMBINED TRAINING EXERCISES, HUMANITARIAN CIVIC ACTION, AND DISASTER RELIEF. IN RETURN, WE BUILD AN APPRECIATION FOR THE ROLE OF U.S. FORCES IN PROVIDING SECURITY AND STABILITY, BUILD CONFIDENCE IN OUR HOST NATIONS, AND ENCOURAGE THEM TO BUILD COMPLEMENTARY FORCES TO SUPPORT COMMON SECURITY INTERESTS. THIS APPROACH, AMONG OTHER BENEFITS, SHOULD LEAD TO THEIR SUPPORT OF THE U.S. IN CONTINGENCY AND CRISIS SITUATIONS. BUT, MORE IMPORTANT TO U.S. NATIONAL SECURITY IS THE EXCELLENT FORWARD POSTURE THAT THE PEACETIME STRATEGY AFFORDS US. SHOULD OUR OVERALL MILITARY STRATEGY OF DETERRENCE FAIL, THE FORWARD POSITIONS OUR MILITARY FORCES OCCUPY IN PEACETIME PLACE US IN AN EXCELLENT POSTURE FROM WHICH TO TRANSITION TO COMBAT. THEREFORE, THE PEACETIME STRATEGY SERVES TWO PURPOSES: TO BUILD CONFIDENCE, INFLUENCE AND ACCESS WITH OUR FRIENDS AND ALLIES IN THE REGION WHILE SIMULTANEOUSLY, AS A RISK REDUCTION MEASURE, PROVIDING A FAVORABLE MILITARY POSTURE THAT SERVES AS A START POINT TO EXECUTE OUR WARFIGHTING STRATEGY.

TURNING NOW TO THE PACIFIC COMMAND'S WARFIGHTING STRATEGY, OUR EFFORTS CONTINUE TO FOCUS ON THE DETERRENT VALUE AND CREDIBILITY OF POSTURING FORWARD EARLY ON, THEREBY SENDING THE RIGHT SIGNALS TO THE SOVIETS AND OUR ALLIES DURING PERIODS OF TENSION, CRISIS, AND POTENTIAL CONFLICT. SUCH MOVES DEMONSTRATE RESOLVE TO PUT THE SOVIET FORCES AT RISK AND TO MAINTAIN PEACE AND SUPPORT FOR NATIONS IN THE REGION, HOPEFULLY DETERRING ANY CONTEMPLATED HOSTILITIES. HOWEVER, SHOULD HOSTILITIES COMMENCE, OUR U.S. MILITARY FORCES ARE ALREADY OPTIMALLY POSITIONED TO FIGHT.

MY JUDGMENT ON OUR FORCE READINESS IS BASED ON THE EXTENT TO WHICH WE ARE TRAINED AND EQUIPPED TO CARRY OUT OUR ASSIGNED MISSIONS. USPACOM FORCES ARE, WITHOUT QUESTION, PREPARED TO FIGHT AND WIN. STATISTICALLY, OUR UNIT COMMANDERS ARE REPORTING HIGH LEVELS OF READINESS, OUR LEADERSHIP IN THE FIELD HAS NEVER BEEN BETTER, AND THE QUALITY OF OUR PEOPLE IS THE BEST I'VE EVER SEEN. MY JUDGMENT IS ALSO BASED ON OBSERVATIONS DURING PACIFIC COMMAND EXERCISES. YEAR AFTER YEAR, U.S. PACIFIC COMMAND SOLDIERS, SAILORS, AIRMEN, AND MARINES HAVE, DURING EXERCISES, SHOWCASED THEIR ABILITIES TO FIGHT JOINTLY, AS WELL AS WITH THE COMBINED FORCES OF ALLIED NATIONS. EXERCISES SUCH AS TEAM SPIRIT IN KOREA, ORIENT SHIELD IN JAPAN, AND COBRA GOLD IN THAILAND GIVE ME CONFIDENCE IN OUR ABILITY TO COMMAND AND CONTROL OUR FORCES AND FIGHT IN A COMBINED MANNER, WHILE AT THE SAME TIME EMPHASIZING OUR RESOLVE AND ABILITY TO FULFILL OUR TREATY COMMITMENTS TO OUR PACIFIC ALLIES.

ROLE OF OUR ALLIES AND FRIENDS

OUR MISSION TO MAINTAIN PEACE INVOLVES A CAPABILITY AND NATIONAL WILL TO ENGAGE IN WAR. BUT, U.S. FORCES CANNOT GO IT ALONE. REGIONAL SECURITY IS A TEAM EFFORT, AND ANY TEAM EFFORT

REQUIRES FREQUENT ASSESSMENT OF MUTUAL CONCERNS AND CHALLENGES. THAT ASSESSMENT IS ONGOING. WE ARE FORTUNATE TO HAVE IN PLACE AN ALLIANCE NETWORK WHICH FOR MORE THAN 40 YEARS HAS SERVED AS THE ULTIMATE GUARANTOR OF STABILITY. THE LIST OF IMPORTANT ALLIES AND FRIENDS IS LONG. IN THE INTEREST OF TIME HOWEVER, LET ME DISCUSS JUST A FEW AS A LEAD-IN TO OUR FOCUS ON READINESS AND SUSTAINABILITY.

JAPAN:

THE U.S. SECURITY RELATIONSHIP WITH JAPAN IS THE LINCHPIN OF OUR PACIFIC STRATEGY. THE JAPANESE ARE WELL ON THEIR WAY TOWARD A SELF-DEFENSE FORCE CAPABLE OF MEETING THEIR COMMITMENT TO DEFEND THE SEA LANES OUT TO 1000 MILES. AIRBORNE EARLY WARNING, HIGH PERFORMANCE INTERCEPTORS, SEABORNE AIR DEFENSE AND ANTI-SUBMARINE PLATFORMS ARE THE PREREQUISITES, AND ALL ARE BEING ACCOMMODATED AND UPGRADED IN JAPANESE DEFENSE PLANS AND PROGRAMS.

HOWEVER, EVEN AFTER ACHIEVING THEIR SELF-DEFENSE GOALS, JAPAN WILL BE CONFRONTED BY POWERFUL ELEMENTS OF THE SOVIET FAR EAST MILITARY FORCES, WHICH OPERATE LITERALLY IN JAPAN'S BACK YARD. JAPANESE FORCES ARE GOOD, BUT THEY FACE THE MORE NUMEROUS AND MORE POWERFUL SOVIETS. THE U.S. MAINTAINS A SIZEABLE FORCE OF FIVE FIGHTER SQUADRONS, NAVAL ELEMENTS OF THE SEVENTH FLEET, AND A MARINE EXPEDITIONARY FORCE IN JAPAN. ALL OF THESE FORCES

ARE A PART OF THE U.S. FORWARD DEFENSE STRATEGY AND SERVE THE MUTUAL SECURITY INTERESTS OF BOTH COUNTRIES AND THE REGION.

ALTHOUGH OUR MILITARY-TO-MILITARY RELATIONS ARE EXCELLENT, THERE IS SOME EXPRESSION OF ANXIETY OVER U.S. PRESENCE. THERE IS AN AWARENESS OF LIMITED REAL ESTATE FOR EXPANSION OF THE JAPANESE ECONOMY AND THEREFORE SENSITIVITY TO THE PRESENCE OF U.S. FORCES, THE LAND THEY OCCUPY, AND THE AIR/LAND/SEA SPACE THEY TRAIN IN. IN SPITE OF THE GROWING CONCERN, WE MUST KEEP IN PERSPECTIVE THE IMPORTANCE OF FORWARD DEPLOYMENT IN THE CRITICAL NORTHEAST ASIA REGION.

IN DEFENSE SPENDING, THE JAPANESE HAVE DONE MUCH, BUT WE BELIEVE THEY CAN AND SHOULD DO MORE. WE ARE LOOKING FOR INNOVATIVE WAYS TO IMPROVE COST SHARING. WE'RE FURTHER EXPLORING MAJOR JAPANESE CONTRIBUTIONS TO ASSIST ECONOMIC DEVELOPMENT AND STABILITY AROUND THE PACIFIC. OUR APPROACH MUST BE MEASURED AND COMPREHENSIVE; AND WE NEED TO WORK CLOSELY WITH THEIR OFFICIALS TO KEEP THE MOMENTUM GOING.

SOUTH KOREA:

THE ECONOMIC STRENGTH OF KOREA AND ITS IMPROVED DEFENSE POSTURE IS AN IMPORTANT REGIONAL DEVELOPMENT. BUT IN SPITE OF SOME ENCOURAGING EFFORTS CONCERNING NORTH-SOUTH TALKS, THE SECURITY SITUATION REMAINS UNCERTAIN.

IN CONCERT WITH OUR ROK ALLIES, WE ARE EXAMINING WAYS THE SOUTH KOREANS CAN ASSUME EVEN GREATER RESPONSIBILITY FOR THEIR OWN DEFENSE. BUT THE THREAT HAS NOT DIMINISHED. OUR FORCE PRESENCE WILL CONTINUE TO BE REQUIRED AS A PROVEN DETERRENT TO NORTH KOREAN ADVENTURISM. WE SHOULD NOT CONSIDER REDUCTION OF THIS PRESENCE UNTIL SUCH TIME AS WE SEE VISIBLE AND MEASURABLE TENSION REDUCTIONS AND A DIMINISHED THREAT. VOICES OF ANTI-AMERICANISM NOTWITHSTANDING, THIS POSITION IS SUPPORTED BY MOST OF OUR KOREAN FRIENDS.

WHILE SOUTH KOREA IS CONTRIBUTING TO THE COST OF MAINTAINING OUR FORCES ON THE PENINSULA, WE ARE EXAMINING WAYS FOR THEM TO INCREASE THEIR CONTRIBUTIONS. THESE INITIATIVES INCLUDE AIRCRAFT MAINTENANCE, CONSTRUCTION, LABOR COST SHARING AND MEASURES TO ENHANCE INTEROPERABILITY.

PHILIPPINES:

WE ARE CAUTIOUSLY OPTIMISTIC THAT THE GOVERNMENTS OF THE PHILIPPINES AND THE U.S. WILL SEE IT IN THEIR MUTUAL BEST INTERESTS FOR U.S. MILITARY PRESENCE TO CONTINUE IN THE PHILIPPINES BEYOND 1991. AT THE SAME TIME, WE RECOGNIZE THAT WE WILL FACE SIGNIFICANT HURDLES WITH THE PHILIPPINES ON ISSUES SUCH AS ASSISTANCE LEVELS, CRIMINAL JURISDICTION, AND UNHAMPERED MILITARY OPERATIONS. NEVERTHELESS, WE BELIEVE THE AS YET UNSCHEDULED NEGOTIATIONS STAND A STRONG CHANCE OF SUCCEEDING

BECAUSE OF THE IMPORTANCE OF THE PHILIPPINES/U.S. RELATIONSHIP TO BOTH COUNTRIES AND TO ASIA AS A WHOLE.

OFTEN UNSAID IS THAT THE U.S. FACILITIES ARE EQUALLY AS IMPORTANT TO THE PEACE AND STABILITY OF THE ENTIRE PACIFIC BASIN. AS PARTNERS IN FORWARD POSITIONING OF U.S. FORCES, THE PHILIPPINES PLAY A MAJOR ROLE IN PROMOTING REGIONAL BALANCE AND MUTUAL SECURITY.

IN THE EVENT OF A FAILURE TO REACH AGREEMENT FOR CONTINUING ACCESS TO THE PHILIPPINE BASES THERE ARE ALTERNATIVES, BUT RELOCATION WOULD BE EXPENSIVE, TAKE YEARS TO COMPLETE, AND WOULD NOT NECESSARILY PROVIDE THE SAME GEOSTRATEGIC ADVANTAGES WE NOW ENJOY.

AUSTRALIA:

OUR ALLIANCE RELATIONSHIP WITH AUSTRALIA IS VERY CLOSE AND WILL REMAIN AN EQUAL PARTNERSHIP BASED ON SHARED GOALS AND INTERESTS. THE AUSTRALIAN GOVERNMENT REMAINS COMMITTED TO DETERRENCE AND ARMS CONTROL BY PARTICIPATION IN JOINT FACILITIES AND THE GRANTING OF ACCESS FOR U.S. SHIPS AND AIRCRAFT. AUSTRALIA AND OUR BILATERAL RELATIONSHIP UNDER THE ANZUS TREATY REMAIN A CORNERSTONE OF STABILITY AND PEACE IN THE SOUTH PACIFIC AND SOUTHEAST ASIA.

CHINA:

CONTINUING ON A PATH OF ECONOMIC AND MILITARY MODERNIZATION, CHINA IS A KEY PARTICIPANT IN MANY ASIAN EQUATIONS. THE SINO-SOVIET SUMMIT COULD REDUCE BORDER TENSIONS; CHINA IS A CONSIDERATION IN ANY U.S. NORTHEAST ASIA STRATEGY; TENSIONS WITH TAIWAN APPEAR TO BE EASING; CHINA HAS DEMONSTRATED FORCE PROJECTION RESOLVE IN ADVANCING ITS CLAIM IN THE SPRATLY ISLANDS; CHINA WILL PLAY AN IMPORTANT ROLE IN THE CESSATION OF HOSTILITIES IN CAMBODIA, AND, CHINA-INDIA TALKS ARE ALSO AN ENCOURAGING SIGN.

WE BELIEVE THAT CHINA WILL CONTINUE TO LOOK TO THE WEST FOR THE TECHNOLOGY AND EXPERTISE IT NEEDS. AS FUNDAMENTAL TO OUR POLICY IN ASIA, THE U.S. SHOULD CONTINUE A RELATIONSHIP WITH CHINA THAT, ON THE ONE HAND, OFFERS CLEAR MUTUAL BENEFITS FOR ITS CONTINUED PEACEFUL DEVELOPMENT, AND, ON THE OTHER HAND, ENCOURAGES CHINA TO STEER A COURSE WHICH PROMOTES STABILITY THROUGHOUT THE REGION.

INDIA:

WHILE THE SOVIETS CONTINUE AS ITS MAJOR ARMS SUPPLIER, INDIA IS A DEMOCRATIC, NON-ALIGNED COUNTRY WITH INTEREST IN A SUCCESSFUL RELATIONSHIP WITH THE WEST. WHILE THERE IS A MUTUAL BENEFIT IN MORE EXTENSIVE AND GENERALLY IMPROVED

MILITARY-TO-MILITARY RELATIONS BETWEEN THE U.S. AND INDIA, SUCH AN IMPROVEMENT SHOULD NOT CAUSE CONCERN AMONG OUR OTHER FRIENDS IN THE REGION. THE U.S. GOVERNMENT IS EXPANDING DEFENSE CONTACTS WITH INDIA TO ENHANCE PROSPECTS FOR MUTUAL COOPERATION.

WHAT WE NEED

AS DISCUSSED IN THIS STATEMENT, WE HAVE A DYNAMIC PEACETIME STRATEGY THAT MAINTAINS A SECURITY UMBRELLA UNDER WHICH DEMOCRACIES CAN FLOURISH, ECONOMIES CAN PROSPER AND HUMAN RIGHTS CAN IMPROVE. THE KEY IS SUSTAINED INFLUENCE AND ACCESS THROUGH MULTIPLE BILATERAL ASSOCIATIONS. A SECURITY ASSISTANCE PROGRAM WITH ADEQUATE FUNDING LEVELS AND FLEXIBILITY THROUGH REDUCED EARMARKING HAS THE POTENTIAL TO ACCRUE IMPORTANT DIVIDENDS IN RELATION TO LEVELS OF EXPENDITURES. SIMILARLY, COOPERATIVE PROGRAMS, INVESTMENTS IN COMBINED EXERCISES, ALONG WITH HUMANITARIAN AND CIVIC ASSISTANCE UNDER TITLE 10 HAVE GENERATED IMPRESSIVE POLITICAL-MILITARY BENEFITS. CONTINUED CONGRESSIONAL ATTENTION TO THESE PROGRAMS IS ESSENTIAL.

OUR OVERALL PRIORITIES CONTINUE TO BE PEOPLE PROGRAMS, READINESS, AND SUSTAINABILITY. AS WE LOOK TO THE FUTURE TO MODERNIZE AND KEEP PACE WITH SOVIET CAPABILITIES, OUR TOP BUDGET PRIORITIES ARE (1) ANTISUBMARINE WARFARE -- PROTECTION OF OUR LINES OF COMMUNICATIONS IS VITAL; (2) SURVEILLANCE AND

INTELLIGENCE -- CONSIDERING THE VAST SIZE OF OUR AREA OF RESPONSIBILITY, IT IS ESSENTIAL THAT CURRENT COMMAND AND CONTROL ENHANCEMENTS AND EARLY WARNING PROGRAMS SUCH AS OVER-THE-HORIZON RADARS REMAIN ON TRACK. THESE PROGRAMS PROVIDE US WITH THE VITAL CAPABILITY TO ASSESS INTENTIONS EARLY AND IMMEDIATELY BEGIN TO POSITION FORCES; (3) AIR WARFARE -- IMPROVED LONG RANGE INTERCEPT WITH MODERN THREAT MUNITION CAPABILITY IS NECESSARY TO ENSURE VICTORY. WE MUST PROTECT OUR BUYS OF PREFERRED MUNITIONS, AT LEAST UNTIL WE MEET THE BASIC REQUIREMENTS; (4) STRATEGIC LIFT -- CARRYING THE FIGHT TO THE ENEMY ON OUR TERMS CANNOT BE ACCOMPLISHED SATISFACTORILY WITHOUT ATTENTION TO THIS AREA. WITHOUT MOBILITY THAT IS READY AND TIMELY IN ITS EXECUTION, WE CANNOT REINFORCE NOR RESUPPLY. CURRENT PROGRAMS SUCH AS THE FUNDING OF THE AIRLIFT/SEALIFT OPERATING ACCOUNT AND THE C-17 BUY ARE ESSENTIAL; (5) AND FINALLY, SUSTAINABILITY -- WE MUST CONTINUE TO INCREASE STOCKAGE LEVELS AND THEREBY DECREASE THE RISK OF DEFEAT FROM A PROTRACTED CONFLICT. YOUR SUPPORT OF THESE IMPORTANT ONGOING PROGRAMS THROUGHOUT THE BUDGET PROCESS WILL ENSURE AN ADEQUATE, WELL POSTURED, DETERRENT FORCE.

WHILE I AM HEARTENED BY THE PRESENT EXCELLENT STATE OF READINESS IN THE PACIFIC COMMAND, I RECOGNIZE THE TASK OF MAINTAINING IT AT ITS PRESENT LEVEL WILL BE A DIFFICULT ONE. FOR EXAMPLE, WITH INTERNAL ADJUSTMENTS, THE FY89 BUDGET HAS PROVIDED US WITH THE MINIMUM FUNDING TO MAINTAIN OUR STATUS QUO IN READINESS. I EXPECT SOME CONTINUED BELT TIGHTENING TO BE

NECESSARY, BUT WE CAN ONLY GO SO FAR. READINESS IS MEASURED IN FOUR BASIC CATEGORIES: THE QUALITY PEOPLE WHO ARE THE FOUNDATION, AND THE EXTENT TO WHICH THEY ARE PROVISIONED, EQUIPPED, AND TRAINED. UNIT COMMANDERS ASSIGN EACH OF THESE CATEGORIES A NUMERICAL VALUE TO OBTAIN A TOTAL UNIT READINESS PICTURE. WHEN VIEWED IN THESE TERMS, USPACOM FORCES SHOW VERY HIGH RATINGS. WE ARE DOING WELL IN THE MEASURED CATEGORIES OF READINESS, HOWEVER, OTHER AREAS SUCH AS REAL PROPERTY MAINTENANCE ARE FALLING BEHIND. WE MUST TAKE CARE NOT TO DEFER MAINTENANCE OF OUR FACILITIES TO THE EXTENT THAT SERIOUS, LONG TERM PROBLEMS DEVELOP. HIGHLY MOTIVATED PEOPLE NEED ADEQUATE PAY, STATE-OF-THE-ART EQUIPMENT, AND MODERN, SAFE, PROPERLY MAINTAINED FACILITIES IN WHICH TO WORK. THE RESULT IS HIGH MORALE AND QUALITY PERFORMANCE.

ON THE POSITIVE SIDE, HOWEVER, WE ARE BENEFITING FROM INTEGRATION OF MODERN, EASIER-TO-MAINTAIN EQUIPMENT INTO OUR FORCES. AIR FORCE FIGHTER SQUADRONS HAVE COMPLETED CONVERSION TO THE F-16 C AND D FIGHTING FALCON, WHILE MARINE CORPS AVIATION UNITS ARE PROGRESSING RAPIDLY IN THEIR CONVERSION TO THE F/A-18 HORNET. GROWING NUMBERS OF AEGIS SHIPS ARE JOINING THE PACIFIC FLEET AND WITHIN THE PAST YEAR WE FORWARD DEPLOYED OUR FIRST AEGIS CRUISER TO YOKOSUKA, JAPAN. OUR AMPHIBIOUS CAPABILITY HAS BEEN BOLSTERED BY THE INTRODUCTION OF NINE LCAC'S, NOW MAKING THEIR FOURTH EXTENDED DEPLOYMENT, AND THE USS MIDWAY'S MODERNIZATION ALLOWS IT TO HANDLE F/A-18'S. WE ARE ALSO ON TRACK WITH MODERNIZING OUR ARMY INFANTRY DIVISIONS TO THE ARMY OF

EXCELLENCE CONFIGURATIONS. ON BALANCE, THE READINESS PICTURE IS EXCELLENT, BUT THERE ARE SOME TRENDS I SEE THAT ARE CAUSE FOR CONCERN. FUTURE READINESS MAY BE REDUCED BY ACTIONS ALREADY TAKEN TO STRETCH OUT SHIP OVERHAULS AND DEPOT LEVEL AIRCRAFT MAINTENANCE, TO LIMIT FUNDS FOR EXERCISES AND TRAINING FUEL, TO STRETCH PROCUREMENT OF ORDNANCE, INCLUDING TRAINING MUNITIONS, AND TO PUT OFF MAINTENANCE OF MILITARY BASE INFRASTRUCTURE IN ORDER TO FUND OUR MORE VISIBLE OPERATIONS ACCOUNTS.

TURNING TO SUSTAINABILITY, PROGRESS IS BEING MADE ALTHOUGH WE HAVE CONCERNS, ESPECIALLY WITH THE FORECAST OF MAJOR REDUCTIONS IN SPENDING YET TO COME. GIVEN THE UNIQUE MARITIME NATURE OF THE PACIFIC THEATER, WE ARE CONCERNED WITH AVAILABILITY OF PREPOSITIONED WAR RESERVE STOCKS AND LIMITED INDUSTRIAL SURGE PRODUCTION CAPABILITY.

IN THE PAST FIVE YEARS THE PACIFIC HAS SEEN GAINS IN MODERN MUNITIONS, WAR RESERVE SPARES, POL STORAGE, AND STRATEGIC LIFT, BOTH AIR AND SEA. AT THE SAME TIME, THESE ARE THE AREAS THAT STILL REQUIRE ATTENTION. SHORTAGES EXIST IN THE CASE OF SOME OF THE THREAT MUNITIONS AND PROBLEMS REMAIN IN THE CASE OF INCORRECTLY POSITIONED BULK POL.

THE FY-89 AND 90/91 BUDGETS SUPPORT SOME INCREASE IN THREAT MUNITIONS. OUR PROJECTIONS INDICATE THAT THE AVERAGE FILL RATE FOR ALL THREAT MUNITIONS, SUCH AS HARM, HARPOON AND PHOENIX

MISSILES WILL INCREASE FORM 19 TO 53 PERCENT OF OUR OVERALL OBJECTIVE BY 1991. MAVERICK, THE IMPROVED 2000 POUND BOMB, 155MM DUAL PURPOSE IMPROVED CONVENTIONAL MUNITIONS, AND OTHER PREFERRED LEVEL OF EFFORT MUNITIONS ARE PROJECTED TO INCREASE FROM 20 TO 40 PERCENT OF THE REQUIRED OBJECTIVE DURING THE SAME PERIOD.

SINCE 1980, WE HAVE MADE A STEADY DOLLAR INVESTMENT IN THE AREA OF REPLACEMENT SPARES. THE RESULT HAS BEEN A QUANTITATIVE IMPROVEMENT IN THE SUPPLY ON HAND. PACIFIC FLEET SPARES EXCEED THE GOAL WHILE THE FLEET MARINE FORCE, PACIFIC SPARES ARE ALMOST THERE. ARMY UNITS IN THE THEATER REPORT THAT HALF OF THE REQUIREMENT IS PREPOSITIONED. THE PACIFIC AIR FORCES HAVE 92 PERCENT OF THE AIR FORCE MANDATED THEATER STOCK REQUIREMENT ON HAND. OUR PROJECTION OF FORTHCOMING BUDGET CUTS WILL PREVENT FUTURE IMPROVEMENT IN OUR SUSTAINABILITY POSTURE. AND AS MODERN EQUIPMENT IS FIELDED FOR WHICH THE FULL RANGE AND DEPTH OF SPARE PARTS IS NOT FUNDED, SUSTAINABILITY PROBLEMS WILL INCREASE.

MAINTAINING OUR EQUIPMENT IS FUNDAMENTAL TO A HIGH STATE OF READINESS. MAINTENANCE FUNDING PROFILES WILL REQUIRE THE DEFERRAL OF SURFACE SHIP AND SUBMARINE AVAILABILITIES, LIMIT MAINTENANCE PACKAGES TO ONLY ESSENTIAL REPAIRS, AND IS REQUIRING US TO PARK AIRCRAFT AND COMBAT VEHICLES FOR LACK OF REPAIR.

OUR BULK PETROLEUM RESERVES IN USPACOM HAVE INCREASED BY 5.4 MILLION BARRELS IN THE LAST FIVE YEARS. PREPOSITIONING OF

ON-HAND STOCKS HAVE IMPROVED WITH THE LEASING OF STORAGE TANKS IN JAPAN, OKINAWA, SINGAPORE, AND GUAM; CONSTRUCTION OF TANKS IN KOREA, GUAM, AND OKINAWA; AND PROGRAMMED CONSTRUCTION ON ADAK. THESE IMPROVEMENTS HAVE INCREASED OUR ABILITY TO PROVIDE FUEL WHEN AND WHERE WE NEED IT. FURTHER GAINS IN SOLVING OUR INCORRECTLY POSITIONED POL PROBLEM ARE POSSIBLE WITH THE LEASE ACQUISITION OF MORE STORAGE IN THE ALEUTIANS/ALASKA.

IN ORDER TO DEPLOY RAPIDLY AS WELL AS SUSTAIN ADEQUATELY OUR FORCES, WE MUST CONTINUE TO SEEK IMPROVEMENT OF OUR STRATEGIC LIFT CAPABILITY. WE ARE CLOSING IN ON THE 66 MILLION-TON-MILE PER DAY (MTM/D) WORLDWIDE AIRLIFT GOAL FOR FY98. THE STRATEGIC AIRLIFT TOTAL WORLDWIDE CAPABILITY FOR FY89 IS 47 MTM/D. TOTAL AIRLIFT CAPABILITY INCREASES TO 50.5 MTM/D IN FY92 AND WILL REACH 97 PERCENT OF TOTAL GOAL BY FY98. THESE AND FUTURE GAINS IN OUR STRATEGIC LIFT CAPABILITIES ARE TIED TO THE C-17 PROGRAM. THE TREND IS POSITIVE.

OUR LONG TERM SEALIFT GOAL IS TO ATTAIN A ONE MILLION SHORT TON U. S. CONTROLLED SURGE LIFT CAPABILITY FOR UNIT EQUIPMENT SO THAT WE CAN QUICKLY DEPLOY AND SUSTAIN OUR FORCES. THE CURRENT UNIT EQUIPMENT CAPABILITY IS GREATER THAN 815,000 SHORT TONS. MARKET FORCES HAVE DRAMATICALLY CHANGED THE COMPOSITION OF THE DECLINING U. S. MERCHANT FLEET FROM BREAKBULK TO THE MORE COMMERCIALLY VIABLE, BUT LESS MILITARILY USEFUL, CONTAINER SHIPS. AS A RESULT, THE DEPARTMENT OF DEFENSE HAS DEVELOPED A SEALIFT

ENHANCEMENT PROGRAM WHICH INCLUDES HARDWARE TO TEMPORARILY MODIFY CONTAINER SHIPS SO THEY CAN CARRY UNIT EQUIPMENT. IN SPITE OF THE ENHANCEMENT PROGRAM, THE OVERALL TREND IS ALARMINGLY NEGATIVE DUE TO THE DEPTH OF THE DECLINE IN AVAILABLE, MILITARILY-USEFUL SHIPPING AND THE ASSOCIATED SUPPORT INFRASTRUCTURE.

THE FY90/91 MILCON PROGRAM REQUESTED FOR USPACOM IS THE SMALLEST SINCE 1982. THIS CONSTRAINED REQUEST REFLECTS THE REALITIES OF A TIGHTER DEFENSE BUDGET. OUR FY90 MILCON BALANCES WARFIGHTING PROJECTS WITH QUALITY OF LIFE FACILITIES. PROJECTS SUCH AS THE RELOCATABLE OVER-THE-HORIZON RADAR IN GUAM AND THE GENERAL PURPOSE BERTHING WHARF IN HAWAII ARE KEY FACILITIES THAT WILL ENHANCE OUR WARFIGHTING CAPABILITY.

THE NEED FOR CONSTANT VIGILANCE IN MAINTAINING OUR SECURITY POSTURE REQUIRES A FORCE THAT IS WELL-TRAINED AND WELL-EQUIPPED. OUR NATIONAL INTERESTS WILL BE BETTER SERVED IF WE INSIST ON PROTECTING OUR HARD-EARNED READINESS AND SUSTAINABILITY LEVELS. IT HAS TAKEN A GREAT DEAL OF DILIGENCE AND EFFORT ON THE PART OF MANY TO ACHIEVE THE SECURITY POSTURE WE NOW ENJOY. PROTECTING THAT ACHIEVEMENT IS ESSENTIAL.

CONCLUSION

THANKS IN LARGE MEASURE TO THE SUPPORT OF THE CONGRESS, PACIFIC COMMAND MILITARY FORCES ARE EQUIPPED, TRAINED, AND READY

TO RESPOND TO ANY THREAT. THE MEN AND WOMEN IN THE PACIFIC COMMAND ARE MAINTAINING THE HIGH LEVELS OF READINESS WE'VE COME TO EXPECT IN THE LAST FEW YEARS. THE DEDICATION AND SKILL THAT OUR PEOPLE ARE DEMONSTRATING ON A DAILY BASIS ARE IMPRESSIVE. OUR ABILITY TO EQUIP PROPERLY AND SUSTAIN OUR FORCES IN WARTIME IS INCREASING INCREMENTALLY AS MODERN WEAPON SYSTEMS AND MUNITIONS COME ON LINE. WE OWE OUR PEOPLE OUR FULL SUPPORT, ESPECIALLY IN THE AREA OF ADEQUATE PAY INCENTIVES AND QUALITY OF LIFE PROGRAMS THAT ARE SO NECESSARY TO RETAIN OUR MOST VALUABLE RESOURCE.

THE FORCES WE HAVE CAN DO THE JOB AND GIVE THE SOVIETS PAUSE TO CONSIDER. WITH YOUR CONTINUED SUPPORT, WE CAN DETER AND IF NECESSARY DEFEAT THEM IN THE PACIFIC THEATER. ALTHOUGH WE ARE SPREAD THIN WITH ONLY 20 PERCENT OF U.S. FORCES DEDICATED TO PROVIDING SECURITY AND STABILITY FOR OVER 50 PERCENT OF THE EARTH'S SURFACE, OUR FORWARD BASING STRATEGY HAS DETERRED SOVIET EXPANSION AND AGGRESSION. MOREOVER, IT HAS MAINTAINED AN ENVIRONMENT THAT HAS STIMULATED ECONOMIC GROWTH AND STABILITY THROUGHOUT THE PACIFIC. THE ADMINISTRATION, THE U.S. CONGRESS, AND THE AMERICAN PEOPLE CAN BE PROUD OF THESE ACCOMPLISHMENTS. I AM CONVINCED WE NEED TO CONTINUE A FORWARD BASING STRATEGY AND AUGMENT OUR PEACETIME AND ALLIANCE STRENGTHENING EFFORTS SO THAT WE CAN MAINTAIN OUR LEADERSHIP ROLE IN THE PACIFIC.

Mr. HUTTO. Thank you. Now we will hear from you, General Leland.

STATEMENT OF LT. GEN. EDWIN S. LELAND, CHIEF OF STAFF, ARMY, EUROPEAN COMMAND

General LELAND. You have the statement?

Mr. HUTTO. Yes, sir, both of your statements will be admitted in its entirety into the record.

General LELAND. I thought it might be helpful if I gave you 1 minute about myself so you will know the perspective that I bring to these issues and then I will briefly summarize the statement.

My father was career Air Force. I grew up in the Air Force, so I have been in the military my entire life.

Mr. HUTTO. Did your father forgive you?

General LELAND. Sir, I wasn't sure about that. I went to a conference here about 3 weeks ago that had most of the senior leadership of the Air Force, many of whom I had not met. They had two distinguishing characteristics. They all had full heads of gray hair and were very handsome. So I now know why my father encouraged me to go into the Army.

I have been in the heavy part of the army, with duty divided between the United States and Europe I commanded a tank company and an armored brigade here in the United States and a tank battalion and an armored division in Europe. I have been Chief of Staff of the European Command since last summer. The European Command is a very large command. It encompasses 77 countries, which is about 43 percent of the countries in the world.

We have two four-star commanders which is unusual. The reason that that is as I am sure you are all aware is because Gen. Jack Galvin our commander is dual hatted. He is the military commander of all of the NATO forces, and so his four-star deputy, Gen. Tom Richards takes care of a lot of American business. As Chief of Staff, it is my job to help both of them.

The situation over there is one of transition. It is a period of great hope, but also of some significant risk. I think all of us are very encouraged by what we hear out of the Soviet Union and from Mr. Gorbachev. The more the better in terms of reductions.

On the other hand, they have yet to reduce anything. In fact they are a lot stronger today than they were when they started talking about reducing things. Primarily because they have continued to modernize. T-80 tanks, BMP2s, and the modern aircraft keep coming. We have had the same strategy for 20 years—forward defense and flexible response. It is the NATO strategy. A lot of us believe that it has contributed to the favorable things we now see in the Soviet Union.

We clearly believe this is not the time to abandon the strategy just when we have them doing what we want them to. So we feel strongly that we need to protect the structure in the theater and we want to be careful we don't make any unilateral withdrawals.

Deterrence is a major part of that strategy. Deterrence is based on the capabilities of forces. We have very good forces and they have the reputation of being very good and that is also important. Part of our strategy now is obviously the arms control negotiations.

Our objective is to get stability at lower force levels than we have today.

We want to do that by drawing down in a way that does not put us at risk at any time during the process, and we want to maintain the alliance. The alliance has been very important to us in the past and will be very important to us in the future.

We can't execute any strategy without resources and we have been very well-taken care of in general over the years. We are an order of magnitude better now than we were in the early 1980's, but that does not mean that there aren't some troublesome problems which remain. We must continue to modernize. I already mentioned to you that the Warsaw Pact is modernizing.

We have also made many improvements. There are a lot more M-1 tanks, Apache helicopters, F-16s and so forth than there were a few years ago, but we are far from complete, and we need to continue the process particularly in the nuclear area.

The readiness of the forces that are garrisoned in the theater, of which there are well over 300,000 (a major portion of our armed forces) is very good, with a few minor exceptions. As General Moore said, in the time that I have been serving, the general quality of the armed forces our country has is by far the best that it has been. Obviously the readiness thing is something that we need to try to protect.

I cannot overemphasize the importance of our people. In the long term, the people are by far our most important asset. It is the junior enlisted member of today who will be the senior sergeant tomorrow. It is the lieutenant today who will be the battalion and brigade commander tomorrow. So what we invest today, to recruit people into the military, to train them and take care of them, has a lot to do with the kind of people we get and how many of the really good ones stay with us for a career.

Sustainment is also an important subject. Again, it is an area where there has been a lot of improvement. It is complicated because there are thousands of items, and they are all at different stock levels. But, as a general summary, it is fair to say our go-to-war stocks have about doubled since the early 1980's. Progress continues in the current 5 year defense plan, but at a slower rate. We do have some problems. One of them that sticks out is what we call preferred ammunition, which generally turns out to be more expensive ammunition.

While everyone who has ever served anywhere tends to believe they were there at a particularly critical time. I believe I am serving in the European Command at a particularly critical time. We certainly cannot go back and use the answers we provided to questions last year. It is a time when our country clearly needs informed, skillful and courageous leadership, because the opportunities, and as I mentioned, the risks are great.

The command is generally in very good condition due in large measure to the efforts of the Congress. We do have some things that we need to continue to work on and I am prepared to talk to you about those as part of the questions and answers.

PREPARED STATEMENT OF LT. GEN. E. S. LELAND, JR.

Mr. Chairman and distinguished members of the Congress, on behalf of General Galvin, Commander in Chief, U.S. European Command, I welcome this opportunity to contribute to your examination of the readiness programs included in the proposed FY 90-91 Defense Budget. Prior to addressing European Command's readiness posture, it may be helpful to cutline the framework which these programs support: mission, strategy and necessary capabilities.

MISSION

As Commander in Chief of the United States European Command, General Galvin is responsible for U.S. military activities in Europe and most of Africa, an area encompassing over 13 million square miles and including 77 countries -- 43% of the world's nations. As the Chief of Staff of the United States European Command, I assist General Galvin in managing the day to day activities of U.S. military activities within our area of responsibility. General Galvin, in addition to commanding U.S.

forces in Europe, also serves as the Supreme Allied Commander Europe, responsible to the North Atlantic Treaty Organization. He commands the theater from his Allied Command Europe Headquarters (SHAPE) near Mons, BE, while the Deputy Commander, General Richards, and I operate from the U.S. Headquarters near Stuttgart, GE. Our mission, succinctly stated, is to deter war and to maintain the peace with freedom the West has enjoyed for forty years -- or if that peace is broken -- to defend by employing the military forces of Allied Command Europe.

SITUATION

As we look at the international environment today, it is clear we are entering a period of uncertainty. There are great changes taking place in the Soviet Union and Eastern Europe, changes in the economic systems, the social structures, and perhaps even the political institutions. It is clear the Soviet Union will pass through unpredictable periods of potential instability.

These changes were not brought about by chance. The strength and determination with which NATO has met the most massive peacetime arms buildup in history, and the unity with which the Alliance has met a series of Soviet challenges in Europe and elsewhere, are principal reasons for the transition now under way in the Soviet Union. At long last we are seeing an antagonist who is beginning to respond to the measured, rational position of the West which has for years urged Moscow to reduce its forces, to desist in aggression, and to work with us for a more stable Europe at lower force levels.

In response, the Soviets have begun to display a willingness to engage in dialogue and to negotiate. Having realized the stagnation of their economy is in part attributable to their enormous defense expenditures, the Soviets are seeking to turn necessity into a virtue by declaring their readiness to participate in conventional arms control negotiations. They have learned sounding bellicose and backing it up with a military force which exceeds any reasonable need for defense only tends to alarm others and motivate them to take prudent steps to ensure their own security. Now they are at least articulating a new approach.

Within the Soviet Union, there is movement toward what the Russian leaders call "new thinking". Glasnost and Perestroika are significant concepts that seem to be shaking a stifling ideology to its very foundations. Government institutions, the economic system, and the very social structure are all undergoing change. In regard to the balance of military forces, we are hearing terms such as "reasonable sufficiency." We are hearing promises of unilateral conventional force reductions of 10,000 tanks, 5000 of which will come from the forward areas of the

Warsaw Pact, 8500 artillery pieces, 800 combat aircraft, and 500,000 men. The non-Soviet Warsaw Pact nations have also announced reductions.

These are promises we hope will come about. But even if they do, many questions remain unanswered. What of the other 42,800 tanks in the Soviet inventory? What, exactly, is meant by a manpower cut? And what of the massive production rates that we still see? President Gorbachev has announced a reduction of 14.2% in the Soviet defense budget. But 14.2% of what is not clear, since the Soviet defense budget remains highly classified. President Gorbachev has also announced a 19.5% cut in production capabilities -- but 19.5% of what is equally unclear. If it were applied to the production of ground systems, instead of producing 3400 tanks per year the Soviets will make 2700 -- a level that is still nearly three times that of the sixteen nations of the Alliance. Instead of manufacturing enough artillery for four artillery regiments every month, the Soviets will make enough for only three regiments. Intentions are one thing; capabilities are another. As military leaders in Europe we must also look at the iron on the battlefield and assess the capabilities of the Soviets to do other than what they say they intend to do.

There has been no decrease in the Soviet's capability or readiness to sustain offensive operations in Europe. In addition to tanks and artillery, the Soviets are fielding two new types of

ICBMs - the SS-24 and the SS-25. They also continue modernizing their short-range nuclear missile forces, notably through the replacement of their FROG system with the more capable and accurate SS-21 missile. They have commissioned their fourth 40,000 ton kiev class aircraft carrier, and this year may undertake sea trails with their new 65,000 ton Tblisi class carrier. The Soviets are currently producing seven classes of submarines and seven different classes of major surface combatants. Their recently fielded Blackjack bomber is a highly sophisticated aircraft that gives a new dimension to their strategic nuclear force. They are building Foxhound, Flanker, and Fulcrum fighters at high rates. New and increasingly silent submarines are being produced at the rate of nearly one a month. This equipment is a collective demonstration of first-class technological expertise. It is highly capable, highly lethal, and in numbers far exceeding the forces necessary for the defense of the Soviet Union or the Warsaw Pact.

We must face this potentially dangerous situation by remaining strong, steady and ready, and by continuing our policy of fielding only the minimum number of weapons and troops needed to ensure our security. If we do this, then instability and unpredictability in the East can be met with stability and predictability in the West.

STRATEGY

The first step in staying strong is to ensure that we have the correct strategy. This, today, is the strategy of flexible response and forward defense. From a military viewpoint this is not the classical defensive posture. It does not trade space for time. It does not allow attacking forces to come in deep, revealing the objectives of their attack, so we can then shift appropriate forces to deny them their objectives. It is not a defense which allows for economy of force along some sectors of the front so that we can channel an attacker and defeat him in time. It is just what it says it is: a doctrine of defense at the forward reaches of Alliance territory, both in the central region and on the flanks. We do not allow any operational penetrations.

But we have a flexible component to our defense, and that flexibility comes in our willingness to meet any attack with an appropriate level of defense. This concept is central to the primary objective of our strategy, to deter war in Europe. The best way to deal with the specter of war is to prevent it from happening. If deterrence fails -- and it has not since the foundation of NATO -- then the Alliance must be prepared to defend. The more we can show the ability to do just that, the less likely it is that deterrence will fail. In other words, in order to achieve our objective to deterrence, our defense must be credible which translates to ready and sustainable combat forces.

Flexible response and forward defense has been and remains the correct strategy for NATO; taking into account the ever changing mix of Alliance political and military realities. Flexible response poses three general responses to aggression.

Direct defense seeks to defeat aggression on the level at which the enemy chooses to fight. It rests on physically preventing the enemy from taking what he wants and placing the onus of escalation on him.

Deliberate escalation seeks to defeat aggression by raising, in a controlled manner, the scope and intensity of combat, making the cost and risk disproportionate to the aggressor's calculated gain. If there were a significant breakdown in the Allied defense by conventional means, the enemy would be progressively faced with the prospect that NATO would resort to using theater nuclear weapons.

General nuclear response contemplates the use of strategic nuclear strikes as the ultimate military response to destroy an enemy's capacity and will to continue the war.

An essential element of flexible response is forwarded defense. We lack the depth to carry out a more traditional strategy, in which a defender facing a numerically superior force trades space for the time needed to wear down the attacker and to organize a counter-attack. Instead, our outnumbered forces rely on the threat of escalating the conflict by employing nuclear weapons to increase the costs of aggression beyond any level the attackers should be willing to pay. Forward defense contributes to this strategy of deterrence because the Soviets recognize any aggression will be met immediately by NATO forces defending every inch of Western European soil, and they know they will be unable to attack NATO without running grave risks of nuclear retaliation.

FY 90-91 BUDGET

But any strategy is useless unless we dedicate the resources to support it. One of USCINCEUR's primary tasks is to identify the capabilities necessary to accomplish his assigned mission, to identify existing shortfalls, and to develop solutions. General Galvin has worked closely with the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, and the Service Chiefs to develop a budget which best resources critical deterrent and warfighting capabilities of the European Command.

Throughout the budget formation process, General Galvin's message has been the need for a balanced approach across the budget and within each pillar of defense: readiness, sustainability, modernization and force structure. A balance must be achieved that not only provides a sufficient number of systems, but also the people, support, and facilities necessary to operate, train and repair those systems. The current budget provides the European Command a balanced package of deterrent capabilities, within available resources, while minimizing the increased risks. In general, key programs have been preserved, as has the progress we have made during the past few years to improve our readiness and sustainability posture. We also have proposed prudent investments for the future recognizing modernization of our forces is a continuous challenge which cannot be postponed without incurring greater risks and higher costs later. Most importantly, we have avoided the temptation to provide a budget which would return us to the "hollow" force structure of the 70s.

This was not accomplished without cost, however. The constrained resources have forced some hard decisions on the future of many programs. Although they represented important capability increases, many programs were terminated. Rather than stretch all programs, which would increase costs and slow the delivery of the systems to the field, lower priority programs were cancelled to provide necessary funds for the more important capability requirements.

MODERNIZATION

The strategy of Forward Defense and Flexible Response dictates we be prepared to defend Alliance territory at the border. Our forces must have the capability to fight the close battle on the front line and the deep battle in the enemy's rear area. Of the 22 complete divisions on line in Europe, four are American, with an additional two regiments as a covering force. Together with our air squadrons and Naval forces, these forces constitute some of the greatest combat power in NATO. But strength is a relative measure. As the other side modernizes, we must modernize. Our forces cannot deter and certainly cannot defend without the proper equipment, training, sustainment and reinforcement.

CONVENTIONAL FORCES

The first requirement of our conventional forces is to prevent a breakthrough by the first strategic echelon of the Warsaw Pact. This means we must have adequate early warning to put our forces in place, and adequate firepower and reserves to allow for victory in the close battle. This requires the right number and mix of units with the proper equipment to meet and hold a massed Soviet/Warsaw Pact mechanized force at the tactical level. To accomplish this task we will rely on a variety of weapon systems including modern attack aircraft, a capable air defense system, and an improved ground combat capability. To these we need to add the Forward Area Air Defense System (FAADS) to improve our ability to defend against enemy air forces, the Advanced Antiarmor System (medium and heavy) to enhance our ability to engage the newest generation of Warsaw Pact armor, and the multiple Launch Rocket System (MLRS) to fire on area targets.

Even with all this, however, we will not be able to hold against a numerically superior foe unless we can delay and disrupt the second strategic echelon on Pact forces which will be trying to reinforce the close battle. If we do not break up and slow the operational maneuver groups and other Soviet reinforcement and exploitation forces, the attackers could rip a hole in our defenses. Fighting the deep battle is a complex process which begins with the identification of enemy forces with systems like the new Joint Surveillance Target Attack Radar System (Joint STARS) and the TR-1 Tactical Reconnaissance System.

The information gained by these and other methods must then be collated and turned into usable intelligence with systems such as the Battlefield Intelligence Collection and Evaluation System (BICES). We need timely, integrated, all-source intelligence systems which fuse, analyze, and disseminates timely targetable battlefield information. Together these capabilities will make a major contribution to our ability to interdict enemy follow-on forces e.g., Follow-On Forces Attack.

Attacking these deep targets will be aircraft such as the F15E and the F16 which, when equipped with the requested Low Altitude Navigation Targeting Infrared for Night Flight (LANTIRN), will be able to strike targets at night and during periods of limited visibility. Just as important, the Navy TLAM C/D and the new Army Tactical Missile system (ATACMS), and infiltrated Special Operations Forces can provide alternative methods for striking deep targets.

To integrate the close battle with deep operations effectively, and to enable the conduct of joint and combined operations, we need to upgrade our command and control assets. Key programs such as MILSTAR, Single Channel Ground-Airborne Radio Systems (SINGARS), Worldwide Military Command and Control System (WWMCCS), Joint Tactical Information Distribution System (JTIDS), and other secure jam-resistant voice improvements should remain on track. In concert, these systems make it possible for our fighting units to exchange battlefield information using digital communications which are highly survivable and jam-resistant.

NUCLEAR FORCES

In the nuclear arena there is one clear priority -- the continued modernization of our theater nuclear weapons. In 1983 the NATO Defense Ministers agreed to reduce unilaterally NATO's nuclear stockpile by 1400 weapons. This reduction, combined with the previous unilateral reduction of 1000 weapons, brings NATO's nuclear stockpile to it lowest level in twenty years. At the same time Ministers identified a modernization program to ensure the Alliance retained systems which are effective, reliable, and survivable. These requirements remain valid today. We need to upgrade 155 mm artillery-fired nuclear warheads, acquire the SRAM-T tactical air-to-surface missile for dual capable aircraft, and develop, produce and deploy the Follow-on to Lance (FOTL) missile system.

READINESS OF OUR FORCES

We all recognize it is one thing to update our weapon systems, but quite another to ensure they will be supported sufficiently to maintain the level and duration of combat operations necessary to achieve our strategic objectives. Thus, I must stress the continued need for a balanced program of readiness improvements. This is particularly important in the case of our forces in Europe, elements which occupy forward defensive positions and would have to fight heavily outnumbered against the Warsaw Pact's assault echelon. We must make the most of the forces we have by setting and meeting the highest standards for manning, morale, equipping, training, maintaining, sustaining and reinforcing. Readiness and sustainability are the keys to first holding against the lead attacking echelon of the Warsaw Pact and then prevailing over a numerically superior enemy.

With your support, the readiness and sustainability programs, prepared jointly by the Services and CINCs, will enable U.S. forces, within available resources, to maintain marginally acceptable levels of support. Although I would prefer higher levels, we have made progress in several key areas: improved Wartime Host Nation Support from our allies; filling of POMCUS; improved wartime medical care capability; improving our forward deployed CS/CSS units. But we are not where we should be. Shortfalls continue to exist in all of these areas. The United States has committed itself to be able to provide ten divisions (four in place and six additional) and sixty reinforcing tactical fighter squadrons in ten days for the defense of Europe (the "10 in 10" concept). We have yet to fulfill that commitment.

The in-theater major combat forces are ready, possessing the resources and having accomplished the training necessary to undertake the majority of their wartime missions. This is a result of all Services giving a priority of effort and resources to the manning, equipping and supporting of our forward deployed forces. The priority readiness and sustainability requirements of the European Command are addressed adequately in the FY 90-91 Budget and, while this budget will not resolve all theater deficiencies, it does preserve the progress of recent years.

RIGHT TRAINING MIX

To integrate all of the complex weapon systems into a cohesive defense, it is important our forces train intensely and efficiently at every level. Ways are being studied to capitalize on computer simulations and other modern training methods to teach the proper principles and techniques at all levels, from the lowest units to the highest. We are working to develop operational proficiency at the top -- at echelons above corps -- as well as highly proficient tactical commanders. The Warrior Preparation Center, in conjunction with the Joint Warfare Center, continues to be the focus of our efforts. Additionally, recent enhancements have been made to the REFORGER Program to develop the "right mix" of simulation, unit maneuver, command post exercise (CPX) and command field exercise (CFX) to achieve maximum possible training readiness in this environmentally constrained theater. The end result will be expanded and improved training for commanders and staff officers requiring fewer soldiers and tracked vehicles. Combat soldiers and their tracked vehicles will be predominantly trained at the Combat Maneuver Training Center.

OPTEMPO

As we continue implementing our key modernization programs, the requirement for training increases. Modern equipment is of little use if our troops are not able to operate them effectively. A key factor influencing their effectiveness is the level of training provided through the funding of Operations Tempo or OPTEMPO, the number of tracked vehicle driving miles, ship steaming days and aircraft flying hours which are funded each year. This funding determines how frequently and for how long we can actually operate and train with our vehicles, planes and ships. The lower the OPTEMPO funding, the less time our forces can train on their systems. For today's junior officers and NCOs, who will be tomorrow's senior leaders, missed training opportunities cannot be recouped. Minimum OPTEMPO funding to meet European Command's training objectives has been provided and I urge your support in maintaining these levels.

OPERATIONS AND MAINTENANCE

Operations and maintenance funding is another significant contributor to readiness and overall combat capability. Unfortunately this resource category has become the traditional attractive target for substantial reductions as Defense budgets are cut back. In terms of buying power and considering real mission growth within this command, the Operations and

Maintenance funding is approaching the low funding levels for the late 1970s when all the Services attempted to operate with "hollow forces". Following the FY 88 deficit reduction actions, for example, our Air Force component was forced to absorb a significant negative real growth funding from FY 87 to FY 88. Deployments for needed flight training had to be cancelled. Unquestionably, critical weapon qualification skill levels suffered. Any reductions in Operations and Maintenance funding should be resisted.

MILITARY CONSTRUCTION

Military construction, comprising both new construction and facility modernization, provides adequate training, work and living facilities to support the readiness of our forces and our ability to sustain those forces. MILCON is a major force multiplier which allows our forces to increase their mission capability without increasing their size. The sophistication of our weapons systems increases the need for critical maintenance and support facilities. European Command's FY 90-91 MILCON program supports readiness by constructing secure command and control facilities, providing bare minimum maintenance facilities for our most modern tracked vehicles, and attack helicopters, developing a necessary combat maneuver training complex, ensuring adequate on-base housing, and reducing the number of overcrowded and deteriorating schools.

SUSTAINABILITY

Sustainability, from European Command's perspective, is inseparably linked to our readiness posture and to our ability to maintain the necessary level and duration of combat activity to deter war, or if necessary, to fight conventionally. Specific personnel, equipment and theater stockage requirements, for in-place and reinforcing forces, have been established and we continue to grow towards attaining those requirements.

Despite increasingly austere Defense budgets, progress has continued in improving our overall sustainability levels. While we would prefer higher levels, the FY 90-91 Budget preserves the overall progress of the last few years. With your support we will continue to fill our POMCUS stocks, make essential upgrades to manage better our prepositioned equipment and the reception and onward movement of U.S. reinforcements, and begin delivery of the C-17 transport aircraft. The risks associated with support force structure shortfalls are reduced with recent increases in the levels of Wartime Host Nation Support that is to be provided by our Allies. The Collocated Operating Base (COB) agreements, making European airfields available to U.S. reinforcing air units during wartime thereby reducing the number of aircraft at any one base, will complicate Soviet plans.

We remain, however, unable to meet fully our reinforcement commitment to NATO; providing 10 divisions, 55 reinforcing tactical fighter squadrons and two Marine expeditionary brigades within 10 days of mobilization. This is the result of continuing shortages in a number of interrelated areas: readiness and availability of support units; POMCUS fill; strategic lift; theater war reserve stocks of preferred munitions, equipment, spare parts, deployable medical systems and medical supplies; warehousing to support prepositioning and other theater storage programs; and U.S. financed aspects of host nation support. Balanced progress must continue in each of these areas. Because they are so closely related, efforts to make improvements in one area often yield true dividends only if accompanied by progress in others. Greater POMCUS fill can decrease the shortage of our early strategic lift requirements to carry equipment from the United States. On the other hand, increases in our POMCUS stocks must be accompanied by increases in warehouse space necessary to store those stocks. In short, we must be constantly alert to the interrelationship among various capabilities as we work to improve the overall posture.

WAR RESERVE STOCKS

Our stockage of essential war material determines how long a conventional defense in Europe can be conducted. Although there has been continual improvement over the last five years, many of our stockage levels are not sufficient to meet agreed U.S. or NATO standards. We have shortages in both theater oriented and level-of-effort munitions, and in almost all categories of missiles. Especially critical shortages exist for air defense, anti-armor, and anti-ship missiles. New technology munitions for the 155 mm and 8-inch artillery systems are also in short supply. Significant shortages in major Army end items (tanks, helicopters, infantry fighting and cargo handling/carrying vehicles) are compounded by shortages in replacement assemblies and spare parts needed to keep the equipment operating. There are shortages of needed replacement engines, transmissions, aircraft boom assemblies and other spare parts. Significant shortages in the Air Force war reserve spare parts packages adversely affect our ability to sustain air combat.

AMMUNITION

It is very important that we have the proper ammunition in the right quantities at the right time and place on the battlefield to conduct a successful defense. The air battle requires the Navy's Phoenix missile, the Air Force AIM-9 Sidewinder and the joint Navy/Air Force Sparrow/AIM-120 Advance Medium Range Air-to-Air Missile (AMRAAM). There still exists a critical shortage of preferred air-to-air munitions. To penetrate Warsaw Pact reactive armor, the ground forces need 120 mm smooth bore main gun ammunitions for the Abrams tank and

Hellfire missiles for the Apache helicopter.

POMCUS

The purpose of POMCUS is to forward position equipment for six CONUS based divisions ear-marked to reinforce Europe, so that in time of crisis only unit personnel and a minimum of equipment will require airlift. Over the years, the POMCUS program has continually improved, yet there is still a lot of equipment to be procured and prepositioned. As we proceed to increase the fill of POMCUS, and we would make adequate progress with the FY 90-91 budget support, we also proportionally reduce the shortage of air and sealift. Completing the POMCUS program will reduce the shortage of aircraft and ships required to support the reinforcement and sustainment effort. If mobilization occurred today, a substantial portion of our lift requirements would be dedicated to transport equipment and supplies which are scheduled but not yet prepositioned in POMCUS.

LIFT

The U.S. military does not have sufficient air or sealift to place the required forces in Europe to meet our national reinforcement commitment. Senator Denton's second Report of the Commission on Merchant Marine and Shipping expressly cited that insufficient strategic sealift exists to execute a major deployment in support of contingency operations. Other OSD, JCS and CINC studies completed in the last year have highlighted our strategic shortfalls in airlift, sealift, and prepositioning. Procedural initiatives identified by the OSD/JCS study, "Improving Force Closure for Europe (IFCE)", and CINCEUR's study, "Reception and Onward Movement for Europe (ROME)", have resulted in improved force closures. The programmatic solutions, however, provide the challenge to meet our commitment. We must continue to alleviate this problem of insufficient lift by increasing the levels of prepositioned equipment and supplies, and by enhancing lift capabilities. Further, we need to win the anti-submarine warfare battle in the Atlantic to have a chance of the lifted forces reaching Europe. We urge your continued support for such programs as the Navy's amphibious shipping, SEASHED/flatrack equipment enhancements for container ships, fast sealift, and production of the Air Force's C-17s to meet a FY 92 initial operational capability.

COMBAT SUPPORT/COMBAT SERVICE SUPPORT

The logistics structure available to sustain U.S. combat forces during the early days of a crisis or conflict in Europe is another critical component of successful defense. Most of the Combat Support and Combat Service Support personnel, those individuals so necessary to sustain the combat forces, are in the Reserve and National Guard force structure. These units make up a substantial portion of the U.S. Army forces that are required to be deployed to Europe to support and sustain our committed combat forces. Our in place logistics organizations are inadequate to meet wartime support requirements for the forces presently in Europe. The support units in-theater are undermanned and would require thousands of additional troops on the day reinforcement begins to meet necessary manning levels. Support for reinforcing units is also a problem, since most is to be provided by reserve component units, many of which are undermanned and not equipped to perform the tasks for which they were formed. While the readiness, availability, training and equipping of these forces continues to improve, we still have a long way to go before current deficiencies are reduced significantly. The Army is involved fully in addressing this issue and I ask for your continued support in funding improved availability, readiness and sustainability of our Reserve and National Guard forces.

MEDICAL

Adequate medical facilities and a reasonable evacuation policy greatly enhance sustainment of the force by providing needed medical treatment and reducing the number of combat injured personnel that would be required to be returned to CONUS. Proximate in-theater care is the most effective investment for replacement of combat power. Current resources for medical readiness and sustainability severely constrain the number of casualties returned to duty through in-theater treatment.

TAKING CARE OF OUR PEOPLE

The most valuable resource we have in the military is the men and women in uniform. Their welfare and morale is a key component of readiness. The success of any defense strategy, no matter how well crafted, depends ultimately on the quality and commitment of the people assigned for its execution. We have an obligation to take care of these service men and women as well as their families by providing them with adequate compensation, medical care, housing, schools, family care and facilities for training, working, and recreation.

These young men and women serve with discipline and loyalty so their countrymen might live in peace and security. They often make sacrifices of their own well-being and life styles which would be intolerable in the private sector. They are a proud group who have volunteered for duty and who serve with dignity. We owe them just compensation for their contribution.

Recent budget cuts have already forced us to extend tours overseas, to delay promotions, to reduce family support programs, child care facilities, and libraries, to reduce funding for morale, welfare and recreation facilities and to delay or cancel needed school construction. Additionally, reduced operations and maintenance funding has forced us to take soldiers away from training and place them in base support jobs previously contracted out. We must be sensitive to the impact these budgetary reductions are having on the morale of our service members and their families. Insufficient support of such programs will have a negative impact on retention and recruiting, and ultimately on force readiness. Supportive and cared for families allow our forces to focus on their primary mission -- training. We should continue to be a nation that is prepared to meet its responsibilities to our citizens in uniform.

ARMS CONTROL

While we are maintaining our strength, we must also be willing to negotiate to provide enhanced security at lower force levels. And we are. In recent months, the Soviets have made some momentous admissions which may open the door for favorable negotiations in the future. The first one was by Marshal of the Soviet Union Akhromeyev, former chief of the Soviet General Staff, who, when speaking at the council on Foreign Relations in New York City last summer, said, until then, the Soviet military had been offensively postured, but now they were going to change to a defensive posture. Then, last December, President Gorbachev in his U.N. address pointed out, by removing 5000 of the 10,000 tanks in the forward area, he would be shifting to a defensive posture. These are admissions of something the Soviets long have denied, that they have been an offensively posture military power.

Not only have they made these admissions, but they have established the precedent that the bigger side must come down first and asymmetrically. The INF Treaty was a victory in this regard. The Soviets are destroying 1840 missiles to our 846. The Gorbachev promise of unilateral conventional reductions reaffirms this precedent. But it should not obscure the fact, even with these reductions, the Warsaw Pact will remain vastly larger. Future reductions will have to be asymmetrical to preserve stability. Without asymmetrical reductions, the Warsaw Pact could markedly increase the correlation of forces to its own advantage, displace the nuclear threshold, and reduce overall security while it streamlines and modernizes its forces.

While conventional arms control negotiations offer the opportunity to enhance security and stability at lower force levels, we cannot ignore the risks involved. The first risk we run is in tampering with our strategy. We have carefully considered the best strategy for our Alliance and have concluded it remains forward defense and flexible response. As we negotiate, it is important to understand an arms control agreement could affect our ability to execute that strategy.

The second risk deals with our force structure. The effectiveness of a force is measured by a variety of means: number and size of units, reinforcement capabilities, sustainment, doctrine, strategy, tactics, organization, and training. No part is independent of the others. Modifications in one of these areas affects all of the others. If we negotiate changes in one of these areas, we should be aware of its implications for the others.

The third risk we encounter has to do with our ability to verify any agreement. This is a tough area, in conventional arms it is much harder than it is for nuclear weapons. It would be impossible to have a 100% inspections of all conventional forces. There are just too many things to check. It would be inordinately expensive, and may not tell us what we need to know. We are already spending a great deal of effort on verifying the agreements under the Stockholm Accords and the INF Treaty. To do it right requires a substantial overhead -- Russian Language speakers, escorts, accommodations, communications, and transportation, to say nothing of the money and manpower required. Verification of conventional arms control agreements will be even more difficult.

Assuring compliance with chemical weapon agreement would also be hard. Since the major ingredient in chemical weapons is alcohol, and since there are so many ways to produce them, adequate verification will be very difficult. Yet it would be vital to have a way to ensure that all nations are meeting their obligations.

While negotiations on conventional forces offer solid opportunities we must not treat them as a panacea, for there are risks. These risks must weigh heavily in the negotiations. If we do not move through them intelligently with adequate military advice, then we could end up worse than when we began.

CONCLUSION

As we face the tough challenge of funding a prudent level of deterrence, we must not accept false solutions which destabilize, increase the risk to Western security, reduce our commitments to Allies and friends, or in other ways fail to meet our defense needs. During the course of the budget deliberations this year, several significant events will unfold in Europe. This year will mark the beginning of the much-heralded and long awaited negotiations on conventional forces in Europe; continued implementation of the INF Treaty; and most significantly, the celebration of the fortieth anniversary of the North Atlantic Alliance, marking the longest period of continuous peace and security for Western Europe in modern times. This has been no accident of history, but rather the fruit of hard, careful, and unrelenting labor by Western Statesmen and soldiers.

As we celebrate this important event, we need to remain mindful that U.S. forces are forward deployed in Europe because it is in the U.S. national interest. Those forces have to be maintained and supported to counter the threat posed by the Soviet/Warsaw Pact forces they face. We cannot create a European presence which serves only as a tripwire for employment of nuclear weapons. Our goal should be to enjoy many more anniversary celebrations for NATO.

There are no easy, quick solutions for the challenges we and our European Allies face in deterring Soviet aggression in Europe. Our strategic approach, so successful in the past, is correct and continues to produce positive results. Continued peace with freedom in Europe is dependent on the long term commitment to achieve this end. Our collective challenge is to ensure maximum effectiveness of our capabilities.

Today, because the economy is being stressed, there is a great temptation to push funding for spare parts, ammunition and support into the "outyears." I ask for Congress's continued support to preserve the progress made during the past years. Today, Warsaw Pact forces arrayed against the Central Region of NATO have sixty to ninety days of operational spares and supplies deployed forward. Our own stocks do not compare. Our greatest weaknesses are in the areas of war reserve stocks of preferred munitions, spare parts, and equipment; and readiness of support forces. These concerns are compounded by continuing shortfalls in the areas of strategic sea and airlift. It would not be fiscally responsible to ask for a complete overhaul of support forces, despite the over-whelming need, but it is crucial we continue to improve our existing levels of readiness and sustainability. No forces, however large or modern, can prevail without adequately trained people, and the necessary facilities to service and repair equipment and to distribute supplies to combat forces.

We can ill afford to reduce further our readiness. Such a course would inevitably lead to hollow armed forces and a vulnerable nation. Thanks to the support of the Congress, we are just recovering from having pursued such a course in the 1970s. It is tempting to take a disproportionate share of reductions from the readiness accounts because cuts in those accounts translate into immediate "savings." But that temptation is much easier to resist if we remember that readiness cuts also translate into an immediate loss of deterrent and operational capability. They also mortgage the training of current and future leaders which is so fundamental to success on the modern battlefield.

The credibility of our deterrence, how our adversaries and others perceive our will and capabilities, and our actual warfighting capacity are no stronger than our ability to achieve and maintain the level and duration of combat necessary to attain our objectives of maintaining peace with freedom.

Mr. HUTTO. All right, we thank you very much. Both of you, General Moore and General Leland, for your statements.

I certainly agree with you, General Leland that we can't let down our guard. Sometimes the Soviet Union talks a good game, but they don't back it up with actions. I think all of us are hopeful, and I think you indicated that we would have to reduce the force level, but do it not wholesale and in a rational way.

I just wondered what your thoughts might be on the proposal that was introduced, or will be introduced, by a couple of our colleagues to reduce by 25,000, and I think the rational was to take those who had been assigned to the INF sites, the ground launch cruise missiles, the Persian II locations.

Do you have any particular thoughts on that?

General LELAND. Yes, sir, I do. It is a bad idea. It directly relates to the point I made about the negotiations. If there is ever a time that we do not want to reduce the force structure in Europe, it is now. Those soldiers that are manning the GLCM's and the Persian II's came out of the theater in general and we have requirements for them.

As you know, right now, we cannot meet our reinforcement goals. I am sure we will end up talking some about that. Clearly, the more people you have in the theater to perform the mission helps that situation. Also, those people will go primarily to MLRS battalions (one of our more effective modern weapon systems) and to redress well known manning shortfalls in support units. We have artificially brought the strength of those units down in order to live under the European troop strength ceiling.

Mr. HUTTO. There is a great pressure, as you know, for burden-sharing for our allies to take more of the load. That is reflected not only in Congress, but through the feelings of the American people. So, with that kind of pressure and with the peace initiatives by Mr. Gorbachev and the times that we live in, do you, in phasing down somewhat, and I think we have got to be very careful about that, but what do you see ahead?

What would be your recommendation?

General LELAND. Well, sir, in my view we need to protect those things that I mentioned or summarized a bit in the opening statement and I will come back to those.

Certainly, I would have to be naive not to realize that we have some budgetary challenges and that we cannot have a cavalier attitude; we can't say we have to have everything. I would tell you that we need to protect readiness. We just cannot repeat the problems that we had in the mid to late 1970's because of the impact on go-to-war readiness today, and in the years ahead.

Once you miss a training opportunity in a key junior leadership position you can never go back and get it. So, if you have a lieutenant who is commissioned, say, this summer, and comes into one of the services, if we don't have good training programs for the organization he joins and he serves in during those initial critical years, I don't care what we do in the school house or whatever, he will never recoup it the loss of experience.

There are just some lessons in our business that you get the opportunity to learn at the entry level that carry you throughout your career. If we cut the readiness now, we are not only hurting ourselves now, but we are mortgaging our future. I would protect readiness.

Having said that, I would never say spend every penny we get absolutely brilliantly. There may be some places where we can save money in the Operations and Maintenance area, I would never say that is not possible.

Mr. **Hutto**. There have been a number of recent articles recommending reducing the readiness in O&M accounts. That doesn't make a lot of sense to me, but talking in the near term because of these initiatives, General Moore, tell us what you see as the near term Soviet threat in the Pacific and your reaction to these calls for a stand down in readiness capabilities.

General **Moore**. Well, its probably best to cover the Soviet threat in closed session, but let me summarize it in this content. Each morning at 7 o'clock, later on Saturdays and Sundays I stand in front of an alert board. There I watch both the blue force and red force maneuver, and watch the employment of Soviet airplanes, ships, submarines. At the same time I hear what Mr. Gorbachev says. I truly do. There may be light at the end of the tunnel. However, I am uncertain as to whether that is a peace candle being lit or an 8-round that has just been fired.

It's too early to tell. They exercise in the Pacific in a maritime context much the way we are now exercising and that has been a great change over the last 15 or 20 years.

They used to exercise in a closed context format where everybody was controlled by the higher headquarters. None of the junior officers or junior elements out there could do anything without a full control, what I referred to as the ground control intercept mentality.

You are vectored out, see the airplane, told to shoot it and shoot it. What we see in today's evolution is the integration of the combined arms, both air, sea and ground; more influence being placed on the individual battalion regiment squadrons, more initiative by individual fighter pilots in intercepting our airplanes, over flying our carriers, and more risk at sea. That is the area that concerns me the most.

I view our requirements and initiatives in either a long or a short-term context. We can continue to buy brand new heavy weapons systems and 5 years from now while admiring our F-16s and 18s, realize there is nobody around to maintain or operate them. In essence we have a hollow force.

We can go the other way. We can put all our marbles in readiness today and take a short-term view. What I would submit to you is that we must take a balanced approach. When we start cutting budgets and whacking away at individual accounts, we have to do it in a very, very smart balanced format.

I was around in the early 1970s and 1980s as a MAC commander. I watched us put airplanes in the air that had holes in them instead of black boxes. I also watched when some of the holes were fixed and full mission airplanes were in the sky. I left in the middle 1980s as a group commander. At that time I told my wing commander I could provide a good percentage of our airplanes ready for takeoff on any given day.

I would submit that is balance. I view it in a full context. Time and money must be applied to modernization and readiness in a balanced way.

Mr. HUTTO. Thank you, General Moore. As you know, we are having to revise our schedule today because of a bicentennial program in the House chambers. We are going to recess at this time until 11 o'clock and we will come back in closed session. So we would ask those who are not cleared to please not return. Only those who are cleared may be admitted when we come back at 11. So we will come back and then we will visit with you in closed session on the issues of importance to us. We will be in recess until 11.

[Whereupon, at 10:15 a.m., the subcommittee recessed to reconvene in closed session at 11 a.m. this same day.]

AFTERNOON SESSION

Mr. HUTTO. The Subcommittee on Readiness will please come to order. We have a continuation of our day of hearings. This morning we had Major General Moore of the U.S. Marine Corps, Pacific Command; and Lt. Gen. Edwin S. Leland, European Command.

We are pleased to have with us this afternoon Maj. Gen. Hugh L. Cox, III, the United States Air Force Deputy Commander in Chief, Special Operations Command. Also with him, is Maj. Gen. John R. Piatak, of the Army, J-5, Transportation Command.

We are delighted to have you with us, General Cox, and we will be pleased to hear your testimony.

STATEMENT OF MAJ. GEN. HUGH L. COX, III, U.S. AIR FORCE, DEPUTY COMMANDER IN CHIEF, SPECIAL OPERATIONS COMMAND

General COX. Thank you, Mr. Chairman. Good afternoon, distinguished members of the committee. I am glad to be here to today to discuss with you the United States Special Operations Command.

As you know, our primary mission is to train and equip special operations, psychological operations and civil affairs forces, and provide the required numbers and mix of specialized equipment and highly trained personnel to support the regional warfighting CINCs.

With that in mind, it needs to be reiterated that the Department of Defense, with the help and urging of the Congress, has embarked on a revitalization of the capabilities of our Special Operations Forces, but this revitalization is not yet complete.

The United States Special Operations Command, or SOCOM, and its components, supported by the services, are improving Special Operations Force structure, readiness, sustainability and modernization in response to the geographical CINCs' requirements for both global and regional war.

Last April, our command reported to the Deputy Secretary of Defense and the Chairman of the Joint Chiefs of Staff the results of a study which assessed the capability of active and reserve component special operations, for psychological operations and civil affairs forces. That study showed that there are substantial deficiencies in all areas which limit current capability to execute assigned, as well as emergent missions.

Details are contained in my statement, which has been submitted to you for the record.

Mr. HUTTO. Without objection, your full statement will be included in the record. Thank you for summarizing.

General COX. Of course, those shortfalls that I just described have not been alleviated, but efforts to do so are continuing.

This situation poses formidable challenges in the face of decreasing defense outlays and at a time when perceptions of the threat are changing in view of recent Soviet domestic policy changes and the constructive dialogue surrounding the strategic arms reduction talks.

A closer look at the world situation in general reveals that peace has not yet been declared and as a nation, we are in a global environment that is something other than peaceful competition amongst nations.

As I know the Congress recognizes, Special Operations Forces have unique capabilities across the conflict spectrum, but they have considerable utility in what might better be described as high-probability conflict. This environment, complete with instability in the lesser developed nations of the world, terrorism and the international drug problem, is one in which Special Operations Forces' capabilities can play a major role in support of national policy objectives.

This capability comes at a cost which is now only about 1 percent of the fiscal year 1990–1991 defense budget, in my opinion, an excellent investment for the low-intensity, high-probability conflict our Nation will probably face for the foreseeable future. Progress is being made. We have a superb group of highly qualified and capable personnel. They are receiving better training with emphasis on jointness and interoperability. We have programs to develop and acquire better equipment and provide better support. Our mission and our people deserve nothing less, though we cannot continue to revitalize the capability of Special Operations Forces without the support of the Congress for the special operations programs in the President's budget which is before you.

This revitalization cannot be completed without your continued support.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF MAJ. GEN. HUGH L. COX, III

INTRODUCTION

IT IS A PLEASURE TO HAVE THE OPPORTUNITY TO APPEAR BEFORE YOU TO ADDRESS THE CURRENT ISSUES FACING SPECIAL OPERATIONS FORCES. IT IS MOST APPROPRIATE THAT THIS COMMITTEE HAS TAKEN A STRONG POSITION TOWARD SPECIAL OPERATIONS, CONTINUING THE NOBLE EFFORTS OF THE LATE CONGRESSMAN DAN DANIEL. BY THE WAY, ON JUNE 16, 1989, WE WILL HAVE A CEREMONY TO DEDICATE OUR HEADQUARTERS BUILDING IN HIS HONOR. THE PURPOSE TODAY IS TO DISCUSS THE READINESS OF THE UNITED STATES SPECIAL OPERATIONS COMMAND AND OUR MAJOR ISSUES AND CHALLENGES FOR THE NEAR FUTURE.

THE IMPORTANCE OF SOF

EVENTS OF THE PAST 12 MONTHS HAVE HAD A MAJOR IMPACT ON OUR NATION'S PERCEPTION OF THE THREAT. THE INTERMEDIATE NUCLEAR FORCES ACCORDS, THE CONSTRUCTIVE DIALOGUE SURROUNDING THE STRATEGIC ARMS REDUCTION TALKS, THE SOVIET WITHDRAWAL FROM AFGHANISTAN, PRESIDENT GORBACHEV'S UNITED NATIONS SPEECH ON 6 DECEMBER 1988, AND SOVIET DOMESTIC POLICY CHANGES ARTICULATED IN THE TERMS GLASNOST AND PERESTROIKA HAVE BEEN WIDELY PUBLICIZED IN THE MEDIA CAUSING THIS NATION TO REEVALUATE ITS DEFENSE PRIORITIES. HOWEVER, IF ONE REVIEWS THE WORLD SITUATION TODAY, PEACE HAS NOT BEEN DECLARED. ALTHOUGH SPECIAL OPERATIONS FORCES HAVE UNIQUE CAPABILITIES ACROSS THE SPECTRUM OF CONFLICT, OUR FORCES HAVE A SPECIAL UTILITY IN WHAT WE NOW TERM LOW INTENSITY

CONFLICT, BUT WHICH IS BETTER LABELED AS "HIGH PROBABILITY" CONFLICT. THIS ARRAY OF EVENTS ALSO INCLUDES THE COUNTER-NARCOTICS ISSUE. SPECIAL OPERATIONS FORCES HAVE THE CAPABILITY TO PLAY A MAJOR SUPPORTING ROLE IN ADDRESSING THESE MAJOR NATIONAL ISSUES. FINALLY, THE COST OF PROVIDING HIGHLY CAPABLE SPECIAL OPERATIONS FORCES COMES TO LESS THAN ONE PERCENT OF THE FY90-91 DEFENSE BUDGET; AN EXCELLENT INVESTMENT FOR THE KINDS OF CONFLICT OUR NATION WILL MOST LIKELY BE INVOLVED IN OVER THE NEXT DECADE.

STRATEGY

THE OVERARCHING OBJECTIVE OF USSOCOM IS TO TRAIN, ORGANIZE, AND EQUIP SPECIAL OPERATIONS, PSYCHOLOGICAL OPERATIONS, AND CIVIL AFFAIRS FORCES TO MELD THEIR CAPABILITIES WITH JOINT DOCTRINE TO SUPPORT, IN HARMONY, THE STATED STRATEGIES OF THE FIVE REGIONAL WARFIGHTING CINCs. THUS, THE SPECIAL OPERATIONS COMMAND STRATEGY IS UNLIKE THAT OF THE REGIONAL CINCs THAT USSOCOM SUPPORTS. THE COMMAND'S STRATEGY FOR SUPPORTING THE OTHER CINCs CANNOT BE EXPRESSED IN TERMS OF "FLEXIBLE RESPONSE" OR FORWARD DEFENSE. IN OUR SUPPORTING ROLE, OUR MISSION IS BASICALLY ACCOMPLISHED WHEN USSOCOM PROVIDES THE REGIONAL CINCs WITH THE PROPER NUMBERS AND MIX OF EQUIPMENT AND PROPERLY TRAINED PERSONNEL THAT ARE REQUIRED TO EXECUTE THE REGIONAL CINC's MISSION. USSOCOM MUST, THEREFORE, BE AN INTEGRAL PART OF THE INDIVIDUAL REGIONAL CINC's JOINT STRATEGIC PLANNING SYSTEM PROCESS AS IT APPLIES TO SPECIAL OPERATIONS REQUIREMENTS. ADDITIONALLY, USSOCOM MUST BE PREPARED TO PROVIDE RAPID

RESPONSE, EITHER IN COMBINATION WITH REGIONAL CINC/FORCES OR UNILATERALLY IF DIRECTED BY THE NATIONAL COMMAND AUTHORITIES TO PREVENT, DETER, AND RESPOND TO ANY SITUATION IN SUPPORT OF U.S. NATIONAL STRATEGY OR OBLIGATIONS.

INTEROPERABILITY OF SOF

SINCE THE CINC'S TESTIMONY BEFORE THE HASC LAST YEAR, THIS COMMAND AND ITS COMPONENTS HAVE MADE CONSIDERABLE ADVANCES IN SOF INTEROPERABILITY. EFFORTS HAVE COME TO FRUITION IN AREAS OF TRAINING AND EXERCISE PROGRAMMING, FORMAL SCHOOLS AND EDUCATION, AND EQUIPMENT COMPATABILITY. FOLLOWING ARE SOME EXAMPLES OF THE SPECIFIC ACHIEVEMENTS AND IMPROVEMENTS:

JOINT SOF REQUIREMENTS

USSOCOM IS AGGRESSIVELY INVOLVED IN THE SOF ACQUISITION PROCESS FOR SEVERAL NEW SYSTEMS THAT MUST MEET JOINT SOF REQUIREMENTS. WE ARE WORKING WITH THE JCS JOINT REQUIREMENTS OVERSIGHT COUNCIL TO ENSURE INTEROPERABILILTY AS WE VALIDATE SOF REQUIREMENTS. SEVERAL PROGRAMS REQUIRING DIFFERENT ACQUISITION STRATEGIES ARE BEING PURSUED AT THIS TIME. THE FOLLOWING PROGRAMS ARE REPRESENTATIVE OF THESE DIFFERENT STRATEGIES AND THE BROAD SCOPE OF OUR JOINT SOF REQUIREMENTS:

JASORS

AMONG THE CINC'S TOP ACQUISITION PRIORITIES IS AN EFFECTIVE LOW PROBABILITY OF INTERCEPT/LOW PROBABILITY OF DETECTION COMMUNICATIONS SYSTEM. THIS COMMAND HAS DESIGNATED THE JOINT ADVANCED SPECIAL OPERATIONS RADIO SYSTEM (JASORS) TO PROVIDE THAT CAPABILITY, ACROSS THE CONFLICT SPECTRUM, TO TACTICAL COMMANDERS. ON 11 JANUARY 1989, APPROVAL OF THE JASORS REQUIRED OPERATIONAL CAPABILITY DOCUMENT WAS OBTAINED. THE FY 90-91 FUNDING FOR JASORS IN THE PRESIDENT'S BUDGET WILL PERMIT US TO START DEVELOPING THIS SYSTEM.

SOF MISSION PLANNING SYSTEMS

AS THE PROPONENT FOR JOINTNESS WITHIN SOF, USSOCOM IS FOCUSING ON THE INTEROPERABILITY OF BOTH THE THIRD GENERATION PLANNING SYSTEMS FOR AIRCREWS AND THE TECHNOLOLGY DEMONSTRATION APPROACH OF THE SOF PLANNING AND REHEARSAL SYSTEM. THE USSOCOM STAFF IS LOOKING AT THE REQUIREMENTS ISSUES BETWEEN AIR FORCE AND ARMY SOF AVIATION MISSION PLANNING, AS WELL AS GROUND AND NAVAL MISSION PLANNING, TO REDUCE THE COSTS FOR RESEARCH AND DEVELOPMENT, PROCUREMENT, AND LIFE CYCLE SUPPORT. THE SOF PLANNING AND REHEARSAL SYSTEM HAS THE POTENTIAL TO PROVIDE GROUND, SEA, AND AIR SOF WITH TOOLS TO ADVANCE OUR SOF TARGETING CAPABILITIES, BY THE EARLY 1990s, WITH THREE DIMENSIONAL, IMAGE-BASED SCENE GENERATION. PLANNERS, OPERATIONAL TEAM LEADERS AND AIRCREWS WILL BE ABLE TO SEE AND REHEARSE AN ENTIRE

MISSION WITH A THREE DIMENSIONAL, TIME RELEVANT, COMPUTER IMAGE OF TERRAIN. SUPPORTED BY OUR "SOCRATES" INTELLIGENCE SYSTEM, WHICH I WILL ADDRESS LATER, THE SYSTEM WILL ALSO REDUCE MISSION PLANNING TIME.

JOINT SOF READINESS STUDY

IN OCTOBER 1987, THE DEPUTY SECRETARY OF DEFENSE AND CHAIRMAN, JOINT CHIEFS OF STAFF, DIRECTED USCINCSOC TO REPORT ON THE READINESS OF SOF BY 1 APRIL 1988. THIS STUDY ASSESSED THE CAPABILITY OF ACTIVE/RESERVE COMPONENT SPECIAL OPERATIONS, CIVIL AFFAIRS, AND PSYCHOLOGICAL OPERATIONS FORCES OF USSOCOM'S COMPONENTS, AND THE UNIFIED COMMANDS.

THE FOLLOWING SUMMARIZES USSOCOM'S AND THE REGIONAL UNIFIED COMMANDS' CONCERNS IN THE FOUR MAJOR AREAS WHICH DEFINE PREPAREDNESS OF SOF FORCES--FORCE STRUCTURE, READINESS, SUSTAINABILITY, AND MODERNIZATION.

FORCE STRUCTURE

THE UNIFIED COMMANDS HAVE UNIFORMLY VOICED CONCERN ABOUT THE SHORTFALL IN AIRLIFT FOR SPECIAL OPERATIONS FORCES. THE FY 90-91 PRESIDENT'S BUDGET INCREASES THE AVAILABILILTY OF PLATFORMS WITH THE FINAL PROCUREMENT OF THE MC-130H COMBAT TALON, THE AC-130U GUNSHIP AND THE ACCELERATED PROCUREMENT OF

THE MH-47E AND MH-60K HELICOPTERS. THESE PROCUREMENTS, ALONG WITH THE FINAL MODIFICATIONS OF THE MH-53J PAVE LOW HELICOPTERS, WILL COMPLETE THE SOF AIRLIFT FORCE STRUCTURE, WITH THE EXCEPTION OF THE CV-22A. FOR NAVY SOF, THE SEAL TACTICAL INSERTION CRAFT, HIGH SPEED BOATS, AND ADVANCED SEAL DELIVERY SYSTEM WILL PROVIDE REGIONAL MARITIME INFILTRATION/EXFILTRATION CAPABILITIES. THESE PROGRAMS ARE ADEQUATELY FUNDED IN THE PRESIDENT'S FY 90-91 BUDGET, BASED ON REPROGRAMMING OF $125.0 MILLION IN FY 89.

THE SECOND COMMON FORCE STRUCTURE LIMITATION IS THAT SPECIAL OPERATIONS, CIVIL AFFAIRS, AND PSYCHOLOGICAL OPERATIONS FORCES ARE TASKED TO SUPPORT MORE THAN ONE THEATER IN GLOBAL SCENARIOS. WE ARE WORKING WITH THE RESERVE COMPONENTS AND UNIFIED COMMANDS TO REFINE THE MISSION ESSENTIAL TASK LIST FOR THESE TEAMS, SO THAT THEY MAY FOCUS THEIR TRAINING ONLY ON THESE TASKS. THEN, THEIR ASSIGNMENTS WILL BE MADE EQUAL TO THEIR CAPABILITIES. ADDITIONALLY, SINCE 1983, NAVY SOF HAS GROWN FROM 27 TO 37 SEAL PLATOONS. THE GROWTH TO 60 SEAL PLATOONS, AS PROVIDED FOR IN THE FY 90-91 PRESIDENT'S BUDGET, WILL ALLEVIATE SEAL FORCE STRUCTURE SHORTAGES.

READINESS

IN THIS UNCLASSIFIED STATEMENT, WE CAN POINT OUT SOME OF THE READINESS CONCERNS. THESE CONCERNS WERE MOSTLY OF A PERSONNEL NATURE THAT ARE BEING SATISFACTORILY WORKED BY THIS COMMAND AND THE SERVICES AND ARE ADEQUATELY FUNDED IN THE FY 90-91 PRESIDENT'S BUDGET.

ONE OF THE PERSISTENT PROBLEMS IS THAT ALL THEATERS REQUIRE QUALIFIED LINGUISTS IN SPECIAL FORCES, CIVIL AFFAIRS, AND PSYCHOLOGICAL OPERATIONS UNITS. A DOD LANGUAGE WORKING GROUP HAS BEEN ESTABLISHED TO WORK THESE LANGUAGE PROBLEMS.

SUSTAINABILITY

ALTHOUGH OUR SOF AIR FORCE MISSION CAPABLE RATES AND SPARES SITUATION ARE CURRENTLY SATISFACTORY, IN PART DUE TO STRONG FUNDING LEVELS IN PRIOR YEARS, WE HAVE INCREASING CONCERN WITH RECENT TRENDS IN SUSTAINABILITY SPARES FILL RATES. CURRENT AND FUTURE BUDGETS MAY BE INSUFFICIENT TO SUPPORT WAR READINESS SPARES KITS REQUIREMENTS. THIS COULD REDUCE FUTURE MISSION CAPABILITY IN THE OUTYEARS CONSIDERING THE LONG-LEAD TIME REQUIRED TO FIELD SPARES. EXACERBATING THIS PROBLEM IS OUR FORCE MODERNIZATION, WHICH, COUPLED WITH THE FUNDING REDUCTIONS, COULD PRECLUDE PROCUREMENT OF NEW SPARE KIT REQUIREMENTS. WE ARE CURRENTLY CONDUCTING A 1989 EXECUTION REVIEW, IN CONJUNCTION WITH THE SERVICES, TO IDENTIFY SOF AIRCRAFT SUPPORT AND SUSTAINABILITY ISSUES. THIS REVIEW WAS DIRECTED BY THE DEFENSE RESOURCES BOARD.

ANOTHER SUSTAINABILITY CONCERN IS THE DEPENDENCY OF DEPLOYED ARMY SOF ON EXISTING THEATER SUPPORT STRUCTURES. THEATER LOGISTICS COMMANDS HAVE NOT CLEARLY ESTABLISHED A SOF LOGISTIC STRUCTURE WHICH SUPPORTS SPECIAL OPERATIONS PECULIAR REQUIREMENTS WHEN PLANNED INDEPENDENT OF CONVENTIONAL OPERATIONS. THE

ESTABLISHMENT OF AN IN-THEATER ARMY SPECIAL OPERATIONS HEADQUARTERS IS EXPECTED TO IMPROVE SUSTAINMENT AND TO ESTABLISH LOGISTICS PLANNING AND SUPPORT STRUCTURES SPECIFICALLY FOR ARMY SOF. THIS IN-THEATER HEADQUARTERS WILL HAVE LOGISTICAL AND ADMINISTRATIVE SUPPORT RESPONSIBILITIES.

MODERNIZATION

ALL UNIFIED COMMANDS EXPRESSED MODERNIZATION NEEDS. WHERE APPROPRIATE, COMMONALITY AND STANDARDIZATION OF EQUIPMENT AND SUPPLIES ARE BEING SOUGHT IN USSOCOM MODERNIZATION PROGRAMS. THESE PROGRAMS WILL TAKE ADVANTAGE OF EXISTING TECHNOLOGY.

THE FIRST SOF READINESS STUDY CAN BE SUMMARIZED BY STATING THAT IT IDENTIFIED AND CATALOGUED THE DEFICIENCIES IN SPECIAL OPERATIONS CAPABILITIES. IN PRACTICALLY EVERY CASE, THE PARENT SERVICES HAVE RECOGNIZED THESE DEFICIENCIES AND HAVE IMPLEMENTED PROGRAMS, OR ARE STUDYING ALTERNATIVES, TO REMEDY THESE SHORTFALLS. TO ENSURE FUNDING IS AVAILABLE TO CORRECT THESE DEFICIENCIES, USSOCOM WITH THE ADVICE AND ASSISTANCE OF ASD (SO/LIC), HAS JUSTIFIED AN ADEQUATE FY 90-91 SOF BUDGET AND IS EXERCISING OVERSIGHT OF SOF PROGRAMS IN THE FY 90-94 FIVE YEAR DEFENSE PLAN. THIS FIRST JOINT SOF READINESS STUDY, IN CONJUNCTION WITH THE ALREADY-PUBLISHED INTEGRATED PRIORITY LIST FOR SOF MODERNIZATION, WILL SERVE AS A GUIDE FOR IMPROVING SOF CAPABILITIES.

READINESS

THE ACTIVE AND RESERVE COMPONENT READINESS OF THE COMMAND, OVERALL, HAS IMPROVED IN THE LAST YEAR. THE READINESS REPORTING SYSTEM CONTINUES TO HIGHLIGHT PROBLEM AREAS THAT WE RESOLVE, OR WORK WITH THE APPROPRIATE SERVICE TO RESOLVE.

PERSONNEL READINESS

OVERALL, SPECIAL OPERATIONS FORCES, COMPARED TO CONVENTIONAL FORCES, ARE MAINTAINING RELATIVELY HIGH STATES OF READINESS AS MEASURED BY THE STATUS OF RESOURCES AND TRAINING SYSTEM.

FOR THE NAVAL SPECIAL WARFARE FORCES, RAPID TURNOVER OF PLATOON PERSONNEL, GENERATED BY A HIGH OPERATIONS TEMPO AND PARENT TEAM SUPPORT REQUIREMENTS, CAUSING PLATOONS RETURNING FROM DEPLOYMENT TO BE ASSIGNED EITHER TO OTHER DEPLOYING PLATOONS OR TO SUPPORT ROLES.

ACTIVE COMPONENT/RESERVE COMPONENT MIX

THE OVERALL SOF RESERVE COMPONENT CONTRIBUTION TO THE TOTAL FORCE IS ADEQUATE AND WORKABLE. HOWEVER, EACH SERVICE COMPONENT ORGANIZES SOF TO MEET WARTIME REQUIREMENTS AS SPECIFIED BY ITS PARENT SERVICE. AS USSOCOM MATURES AND REASSESSES THE ADEQUACY OF SOF TO SUPPORT GLOBAL REQUIREMENTS, ADJUSTMENTS TO THE ACTIVE COMPONENT/RESERVE COMPONENT MIX MAY BE APPROPRIATE. ANY REALIGNMENT MUST IMPROVE THE EFFECTIVENESS AND EFFICIENCY OF SOF IN SUPPORT OF WARTIME REQUIREMENTS. IN THE HIGH PROBABILITY OF

CONFLICT ENVIRONMENT, THE RESTRICTIONS PLACED ON DEPLOYMENT/EMPLOYMENT OF THE RESERVE COMPONENT DURING CONTINGENCY OPERATIONS ARE A PERMANENT LIMITATION.

RESERVE COMPONENT MISSION

THE PURPOSE OF THE RESERVE COMPONENTS IS TO PROVIDE UNITS AND INDIVIDUALS TO AUGMENT THE ACTIVE COMPONENT IN TIME OF WAR OR NATIONAL EMERGENCY. USSOCOM RELIES ON ITS RESERVE AND GUARD SOF TO PROVIDE SOME SUPPORT TO THEATER COMMANDERS. FOR EXAMPLE: SOME SPECIAL WARFARE SPECIAL BOAT UNITS COME FROM THE NAVAL RESERVE, SPECIAL FORCES GROUPS ARE IN THE RESERVE COMPONENT, SOME AUTHORIZED AC-130 GUNSHIPS ARE IN THE AIR FORCE RESERVE, AND US ARMY RESERVE PERSONNEL MAKE UP A SIGNIFICANT PORTION OF PSYCHOLOGICAL OPERATIONS AND CIVIL AFFAIRS FORCES.

ARMY RESERVE COMPONENT SPECIAL FORCES UNITS TRAIN TO ESTABLISHED STANDARDS FOR OPERATIONAL READINESS IN ALL SPECIAL FORCES MISSIONS. HOWEVER, DUE TO LIMITATIONS IN TRAINING TIME AVAILABLE, UNITS FACE FORMIDABLE CHALLENGES IN TRAINING TO AND MAINTAINING THE HIGH STANDARDS REQUIRED FOR THESE MISSIONS. USSOCOM IS WORKING WITH THE DEPARTMENT OF THE ARMY TO REFINE THE MISSION ESSENTIAL TASK LIST FOR RESERVE COMPONENT SPECIAL FORCES GROUPS AND LIMIT EACH UNIT TO ONE SPECIFIC MISSION FOR WHICH THEY CAN ATTAIN AND MAINTAIN HIGH LEVELS OF READINESS.

RESERVE COMPONENT READINESS

RESERVE COMPONENT SOF HAVE DEMONSTRATED THEIR READINESS BY SUPERB PERFORMANCE IN SELECTED ASSIGNED MISSIONS. THERE ARE, HOWEVER, SEVERAL PROBLEM AREAS IN RESERVE COMPONENT SOF. WHILE SOME PROGRESS HAS BEEN MADE, THERE ARE NO SHORT CUTS OR SHORT-TERM SOLUTIONS. ONE INITIATIVE WHICH HOLDS PARTICULAR PROMISE FOCUSES RECRUITING EFFORTS FOR RESERVE COMPONENTS ON ACTIVE COMPONENT PERSONNEL WHO HAVE RECENTLY SEPARATED FROM, ACTIVE SERVICE. THIS WILL MINIMIZE THE NUMBER OF INITIAL ENTRY PERSONNEL WHO REQUIRE EXTENSIVE, TIME-CONSUMING TRAINING TO QUALIFY IN REQUIRED SOF SKILLS.

TRAINING

DURING THE LAST YEAR, THIS COMMAND AND ITS COMPONENTS HAVE MADE ADVANCEMENTS IN SOF TRAINING. THE FOLLOWING IS A BREAK-OUT OF SPECIFIC ACHIEVEMENTS AND IMPROVEMENTS:

THERE HAVE BEEN SEVERAL INTEROPERABILITY ENHANCEMENTS AT THE VARIOUS SOF SCHOOLS. ARMY, NAVY AND AIR FORCE SPECIAL OPERATIONS PERSONNEL ARE ATTENDING CONSOLIDATED COURSES IN BASIC AND ADVANCED MEDICAL, AIRBORNE, COMMUNICATIONS AND DIVE SKILLS.

PROGRESS HAS BEEN MADE IN CONSOLIDATING ALL SOF TRAINING REQUIREMENTS FOR THE COMPONENTS AND ASSISTING THE REGIONAL SPECIAL OPERATIONS COMMANDS IN INTEGRATING JOINT SOF TRAINING. USCINCSOC HAS ESTABLISHED QUARTERLY TRAINING WORKSHOPS TO IDENTIFY TRAINING REQUIREMENTS AND COORDINATE THE INTER-SERVICE SUPPORT REQUIRED TO MAKE MORE EFFICIENT USE OF JOINT SOF TRAINING OPPORTUNITIES.

LANGUAGE

ALL THEATERS REQUIRE QUALIFIED LINGUISTS IN SPECIAL FORCES, CIVIL AFFAIRS AND PSYCHOLOGICAL OPERATIONS UNITS. THE ARMY HAS NEVER MET ITS SOF LINGUIST REQUIREMENTS--A PROBLEM THAT HAS PERSISTED FOR THREE DECADES. ACTIVE DUTY SPECIAL FORCES LANGUAGE TRAINING PROGRAMS DO NOT PRODUCE SUFFICIENT NUMBERS OF ADEQUATELY QUALIFIED LINGUISTS. HOWEVER, LANGUAGE PROFICIENCY PAY IS PROVIDING SOME INCENTIVE FOR SOLDIERS TO DEVELOP AND MAINTAIN LANGUAGE PROFICIENCY. IN THE RESERVE COMPONENT, LIMITED DRILL TIME, LENGTH OF LANGUAGE TRAINING PROGRAMS, AND THE PERISHABLE NATURE OF LANGUAGE SKILLS EXACERBATE PROBLEMS FOUND IN THE ACTIVE FORCES. THESE FACTORS PRESENT AN ALMOST INSURMOUNTABLE PROBLEM FOR RESERVISTS. RECENT AUTHORIZATIONS FOR LANGUAGE PROFICIENCY PAY FOR RESERVE LINGUISTS HAVE HAD LITTLE EFFECT.

A DOD LANGUAGE WORKING GROUP HAS BEEN ESTABLISHED TO WORK THESE

LANGUAGE PROBLEMS. THIS EFFORT WILL UPDATE AND IMPROVE SOF LANGUAGE TRAINING PROGRAMS. FOR EXAMPLE, A SPECIAL FORCES FUNCTIONAL LANGUAGE COURSE HAS BEEN ESTABLISHED AT FT BRAGG.

COMMUNICATIONS

COMMUNICATIONS INTEROPERABILITY

THE USSOCOM COMMAND AND CONTROL SYSTEM MASTER PLAN WAS PUBLISHED IN AUGUST 1988. THIS MASTER PLAN DOCUMENTS THE COMMAND'S COMMAND, CONTROL, AND COMMUNICATIONS SYSTEM AND DETAILS REQUIREMENTS FOR SOF WORLDWIDE, ESTABLISHING THE BASIS OF COMMUNICATIONS INTEROPERABILITY. THE FY89 MASTER PLAN WILL EXTEND THE SCOPE OF THE COMMAND'S COMMAND, CONTROL, AND COMMUNICATIONS SYSTEM TO INCLUDE THE REGIONAL CINCS' SPECIAL OPERATIONS COMMAND REQUIREMENTS.

THE JOINT SOF COMMAND, CONTROL, AND COMMUNICATIONS INTEROPERABILITY PROGRAM WORKING GROUP IS AN ONGOING BODY, CHAIRED BY USSOCOM, THAT MEETS QUARTERLY TO COORDINATE INITIATIVES. THE FY88 ACCOMPLISHMENTS WERE:

- PUBLICATION OF THE SOF COMMAND, CONTROL, AND COMMUNICATIONS ARCHITECTURE THAT DOCUMENTED THE CURRENT STRUCTURE AND DETAILED THE OBJECTIVE ARCHITECTURE THAT SOF MUST OBTAIN.

- DEVELOPMENT AND DELIVERY OF THE COMMUNICATIONS LINK INTERFACE PLANNING SYSTEM TO USSOCOM AND THE SOF COMMUNITY. THIS SOFTWARE PROGRAM ALLOWS PLANNERS TO VERIFY INTEROPERABILITY OF SINGLE CHANNEL EQUIPMENT.

THE FOLLOWING COMMAND, CONTROL, AND COMMUNICATIONS INTEROPERABILITY ISSUES ARE BEING ADDRESSED BY USSOCOM:

- STANDARD SYSTEMS, PROCEDURES, AND INTERFACE BETWEEN JCS AND SOF UNITS.

- COMMUNICATIONS STANDARDS FOR VOICE AND DATA SYSTEMS FOR SOF OPERATIONS WORLDWIDE.

- STANDARDS FOR THE INTERFACE OF SOF COMMAND, CONTROL, AND COMMUNICATIONS WITH CONVENTIONAL AND STRATEGIC SYSTEMS.

COMMUNICATIONS STATUS

FIVE MAJOR PROJECTS HAVE BEEN UNDERTAKEN TO ENHANCE THE COMMUNICATIONS POSTURE OF HQ USSOCOM:

- INTERIM COMMAND, CONTROL, AND COMMUNICATIONS FOR USSOCOM. THIS IS A DIAL-UP SECURE VOICE, FACSIMILE, AND DATA CAPABILITY CONNECTING HQ USSOCOM, THE WASHINGTON OFFICE, AND MAJOR SOF UNITS. THIS SYSTEM WAS OBTAINED AT NO COST TO THIS COMMAND, UTILIZING COMMERCIAL EQUIPMENT EXCESS TO US ARMY REQUIREMENTS.

- DATA BROADCAST SYSTEM/PROJECT SCAMPI. THIS IS A NETWORK OF LEASED FIBER OPTIC CIRCUITS THAT TIE TOGETHER PRINCIPAL PLAYERS IN THE SOF COMMUNITY AND NATIONAL AGENCIES IN CONUS. IT PROVIDES SECURE VOICE FOR BOTH SPECIAL INTELLIGENCE AND TOP SECRET, AND THE TRANSMISSION MEDIA FOR AUTOMATED INTELLIGENCE AND OPERATIONS SYSTEMS.

- RED SWITCH. THIS IS A FULLY SECURE SYSTEM THAT PROVIDES STATE-OF-THE-ART CONSOLES FOR THE USSOCOM COMMAND CENTER AND COMMAND SWITCHBOARD, AS WELL AS SECURE COMMUNICATIONS AMONG PERSONNEL WITHIN HQ USSOCOM, SELECTED USSOCOM COMPONENTS, AND OTHER UNIFIED AND SPECIFIED COMMANDS.

- USSOCOM GARRISON ADMINISTRATIVE TELEPHONE UPGRADE. THIS IS A REPLACEMENT OF A LEASED, 30 YEAR OLD KEY TELEPHONE SYSTEM WITH GOVERNMENT OWNED CABLE, STU-III, OR STATE-OF-THE-ART SINGLE LINE MEMORY PHONES. IT WILL PROVIDE SECURE AND NON-SECURE ADMINISTRATIVE TELEPHONE SERVICE WITHIN THE USSOCOM BUILDINGS AND WORLDWIDE. ELIMINATION OF THE LEASED SYSTEM WILL RESULT IN A SAVING OF SEVERAL HUNDRED THOUSAND DOLLARS PER YEAR.

- WASHINGTON OFFICE COMMUNICATION UPGRADE. THIS OFFICE'S ACTIVATION NECESSITATED THE INSTALLATION OF A COMMUNICATION SUPPORT PACKAGE, TO INCLUDE SECURE VOICE, DATA, AND FACSIMILE, AND AN UPDATING OF THE ADMINISTRATIVE TELEPHONE SYSTEM. THIS WILL INCLUDE A MOBILE AND VEHICULAR CELLULAR CAPABILILTY AND A SMALL LOCAL AREA NETWORK FOR OFFICE AUTOMATION AND CONNECTIVITY WITH HQ, USSOCOM.

INTELLIGENCE

PRIOR TO THE ESTABLISHMENT OF USSOCOM, THERE WAS NO SINGLE SPOKESMAN FOR SOF INTELLIGENCE NEEDS NOR WERE SOF REQUIREMENTS FULLY INTEGRATED INTO THE INTELLIGENCE COMMUNITY PROCESSES. SINCE ITS FORMATION, USSOCOM HAS MADE SIGNIFICANT PROGRESS IN DEVELOPING SOF INTELLIGENCE CAPABILITIES TO SUPPORT SPECIAL OPERATIONS ACROSS THE SPECTRUM OF CONFLICT AND HAS ASSUMED FUNCTIONAL LEADERSHIP ON SOF INTELLIGENCE ISSUES.

THE DEVELOPMENT OF A WORLDWIDE INTELLIGENCE ARCHITECTURE HAS BEEN THE CORNERSTONE OF OUR EFFORT. THE USSOCOM INTELLIGENCE STAFF IS WORKING WITH EACH THEATER CINC TO DEVELOP A SOF SUBARCHITECTURE FOR EACH OF THEIR THEATER INTELLIGENCE ARCHITECTURES. THESE SUBARCHITECTURES WILL DESCRIBE SOF NEEDS AND DELINEATE HOW DEPLOYING SOF UNITS WILL PLUG INTO THE THEATER STRUCTURE. THIS EFFORT IS CRITICAL TO OUR ROLE AS A SUPPORTING COMMAND AND WILL ENSURE WORLDWIDE COMPATIBILITY AND INTEROPERABILITY BETWEEN SOF AND CONVENTIONAL FORCES. SOF SUBARCHITECTURES HAVE BEEN DRAFTED FOR USEUCOM, USSOUTHCOM, AND USCENTCOM. USPACOM AND USLANTCOM SOF SUBARCHITECTURES ARE SCHEDULED FOR DEVELOPMENT DURING SECOND QUARTER FY89. THESE EFFORTS REPRESENT THE FIRST SYSTEMATIC APPROACH FOR INTEGRATING SPECIAL OPERATIONS REQUIREMENTS AND THEATER INTELLIGENCE CAPABILITIES. A PRINCIPAL OUTCOME OF THIS EFFORT IS THE

COMMAND ARCHITECTURE IMPLEMENTATION PLAN, DEVELOPED IN COORDINATION WITH THE REGIONAL CINCS, THAT PROGRAMMATICALLY ADDRESSES SHORTFALLS AND DEFICIENCIES.

A MAJOR ACCOMPLISHMENT FOR SOF INTELLIGENCE WILL BE THE ACTIVATION OF THE SPECIAL OPERATIONS COMMAND RESEARCH, ANALYSIS AND THREAT EVALUATION SYSTEM (SOCRATES). THIS SYSTEM IS AN UMBRELLA ARCHITECTURE DESIGNED TO INTEGRATE EXISTING AND PLANNED INTELLIGENCE AUTOMATION CAPABILITIES. IT PROVIDES FOR SECURE EXCHANGE OF DATA BASES, VOICE AND FACSIMILE TRANSMISSION, AND SECONDARY IMAGERY TRANSMISSION. ITS CONFIGURATION IS BASED ON COMMERCIAL OFF-THE-SHELF TECHNOLOGY, AND IT PROVIDES EXTENSIVE UNIQUE CAPABILITIES TO INTELLIGENCE ANALYSTS, PLANNERS, AND OPERATORS. FOR THE FIRST TIME, WORLDWIDE THREAT ORDER OF BATTLE, INSTALLATION AND FACILITY DATA, AND TAILORED CURRENT INTELLIGENCE WILL BE AVAILABLE AT A SINGLE WORKSTATION. THIS SYSTEM WILL PROVIDE OUR COMPONENTS ACCESS TO USSOCOM DATA BASES WITH PLANNED CONNECTIVITY DOWN TO THE SPECIAL FORCES GROUPS, AIR FORCE SPECIAL OPERATIONS WINGS, AND NAVAL SPECIAL WARFARE GROUPS. THIS SYSTEM, WHICH USES THE COMMUNICATIONS OF THE DATA BROADCAST NETWORK, WILL PROVIDE NEAR-REAL-TIME DISSEMINATION OF COLLATERAL AND SENSITIVE COMPARTMENTED INTELLIGENCE BETWEEN USSOCOM, ITS COMPONENTS, AND THE NATIONAL INTELLIGENCE COMMUNITY AND PROVIDE SOF WITH UNPRECEDENTED ACCESS TO COMMUNITY INTELLIGENCE PRODUCTS. INHERENT WITHIN THE SOCRATES ARCHITECTURE WILL BE THE POTENTIAL FOR WORLDWIDE SUPPORT TO DEPLOYED SOF.

IN MAY 1988, USSOCOM BECAME THE FIRST UNIFIED COMMAND TO INSTALL THE SWIFT HAWK COLLECTION REQUIREMENTS MANAGEMENT SYSTEM. THIS CAPABILITY HAS GREATLY ENHANCED THE COMMAND'S ABILITY TO SUBMIT INTELLIGENCE COLLECTION REQUIREMENTS FOR DELIBERATE PLANNING AND TARGETING. WORK CONTINUES WITHIN USSOCOM TO DEVELOP OPERATIONAL CONCEPTS FOR HUMAN, IMAGERY, AND SIGNAL INTELLIGENCE SUPPORT OF SPECIAL OPERATIONS FORCES IN PEACE, CRISIS, AND WAR. THESE CONCEPTS WILL PROVIDE GUIDANCE ON REQUIREMENTS AND DISSEMINATION FOR EACH INTELLIGENCE DISCIPLINE AND WILL SPECIFY PROCEDURES FOR DEPLOYING SOF.

INTELLIGENCE PRODUCTION NEEDS AND READINESS RELATED INTELLIGENCE CHALLENGES HAVE BEEN DOCUMENTED IN THE SOF ANNUAL READINESS REPORT. THE GAP BETWEEN REQUIREMENTS AND PRODUCTION CONTINUES TO BE MONITORED THROUGHOUT THE INTELLIGENCE COMMUNITY. A MAJOR PROBLEM IS THE NEED TO EXPAND AND IMPROVE INTELLIGENCE PRODUCTION IN SUPPORT OF LOW INTENSITY CONFLICT AND IN THIRD WORLD AREAS WHERE SOF HAVE THE HIGHEST PROBABILITY OF BEING DEPLOYED.

INTELLIGENCE SUPPORT TO THE SPECIAL OPERATIONS TARGETING PROCESS IS UNIQUE BECAUSE OF THE ASSOCIATED COMPLEXITIES AND THE NEED FOR EXTREMELY DETAILED INTELLIGENCE. TO ADDRESS SOF TARGETING ISSUES, USSOCOM HAS INITIATED ANNUAL CONFERENCES ON INTELLIGENCE SUPPORT TO SOF MISSION PLANNING. MAJOR OUTCOMES INCLUDE THE DEVELOPMENT OF JOINT DOCTRINE, TECHNIQUES, AND PROCEDURES THAT

WILL ENSURE COMMON, INTEROPERABLE APPROACHES AND REFINE SUPPORTING INTELLIGENCE REQUIREMENTS. DURING REGIONAL CONFLICTS OR CONTINGENCIES, SOF CAN EXPECT TO BE SUPPORTED WITH ALL AVAILABLE RESOURCES IN ORDER TO ACHIEVE ACCELERATED TARGET PLANNING. THE NATIONAL AGENCIES HAVE RESPONDED BY ESTABLISHING CRISIS SUPPORT MECHANISMS THAT CAN PUT NEAR-REAL-TIME INTELLIGENCE IN THE HANDS OF OPERATORS. THIS ALSO APPLIES TO THE MAPPING, CHARTING AND GEODESY REQUIREMENTS OF SOF. WE HAVE DEVELOPED A GOOD DIALOGUE WITH THE DEFENSE MAPPING AGENCY AND WITH THE IMPROVED CONNECTIVITY PROVIDED BY SOCRATES OUR MAPPING SUPPORT WILL GET EVEN BETTER. WHILE THIS INCREASED SUPPORT WILL ENABLE RAPID DEVELOPMENT OF CONTINGENCY PLANS, PEACETIME MISSION PLANNING REQUIREMENTS CONTINUE TO COMPETE WITH ALL OTHER DAY-TO-DAY REQUIREMENTS PLACED ON THE LIMITED NUMBER OF INTELLIGENCE SUPPORT ASSETS.

SUMMARY

IN SUMMARY, WE HAVE MADE CONSIDERABLE PROGRESS IN THE LAST YEAR. WE HAVE A SUPERB GROUP OF HIGHLY-QUALIFIED AND CAPABLE PERSONNEL, AND THEY ARE RECEIVING BETTER TRAINING WITH AN EMPHASIS ON JOINTNESS AND INTEROPERABILITY. OUR INTERFACES WITH THE REGIONAL CINCs CONTINUE TO IMPROVE. WE'VE MADE PROGRESS, SUCH AS IN JOINT COMMUNICATIONS INTEROPERABILITY, AND WE WILL CONTINUE TO IMPROVE AS TIME PROGRESSES. THE FY 90-91 PRESIDENT'S BUDGET SUPPORTS THE REVITALIZATION OF SOF CAPABILITIES. YOUR SUPPORT IS CRUCIAL TO OUR CONTINUED PROGRESS.

Mr. Hutto. Thank you very much, General Cox.

I gather that, since the establishment of the USSOCOM that we have been making steady progress. Is that your assessment of it?

General Cox. Yes, sir, it is. I feel that some of the most recent decisions, of which you are well aware, certainly have helped us take steps forward in realizing the intent of the legislation with respect to the POM and budget execution.

Mr. Hutto. I realize that putting a new command together, the USSOCOM, you have to be a diplomat as well as a military tactician. Are you satisfied with the way it is being assembled, so to speak, or melded together with the various services? Are there any hitches there? I know there were to begin with.

General Cox. I would have to say from an overall perspective that the evolution of the command's ability to fulfill the expectations of the legislation is coming along, I think, as good as one would expect.

As far as the services are concerned, I would say that we generally have very good cooperation with the services. With the recent decision, I believe, of 24 January, the Acting Deputy Secretary of Defense instructed the services to support CINCSOC's obligation to prepare and to execute the budgets and everything having to do with MFP-11. In fact, this finally opened some doors that previously had only been cracked, so to speak. We will work closely with the services in figuring out how we are going to fulfill our obligations.

So I would say it is certainly an evolutionary process. There has been some institutional resistance for the simple reason that people are adverse to change USSOCOM is a new thing to have to deal with, but I believe in most cases that we are now getting sufficient cooperation to go ahead and do the job that has to be done.

Mr. Hutto. I don't know if you can completely answer this question in open session or not, but, General Cox, if we had to rescue hostages from a place like Iran, if we had to do over Desert I, how much better could we do it? How would we carry that out?

General Cox. In my opinion, we are better prepared today as a result of a number of actions, certainly including the establishment of our command, to do those kinds of things, than ever before in recent history. Since I had a peripheral role in some of the things that went on, primarily in the aftermath of the Desert I operation and as the former Commander of Air Force Special Ops, I can speak from the authority of having seen the capability evolve. Our ability, especially among the services, to work together to be able to respond to those kinds of contingencies and terrorist acts has also improved.

I think right now—I know right now, based on that experience, that our ability to cope with those kinds of situations is the best that it has ever been because of the continuous exercise program we have with those forces that would have to execute such a mission in the future.

There is no doubt in my mind that those forces and the ability to do those kinds of things, coupled with the command and control headquarters, and the joint task force capability to plan and execute that mission, is superb, They would be able to do that kind of a surgical type mission, in the manner that would be expected by the national command authority and the Congress of the United States.

Mr. HUTTO. I think you put your finger on it about being able to work together among the services. We have had some really heroic Special Operations Forces' people and outstanding brave people to participate, but without a doubt, it is quite obvious that when you involve so many services, you have to get control. That, as you have indicated, is the purpose of the new Special Operations Command.

Since we are talking about particular scenarios, Grenada was what, 4 years ago? Could that be done any better today?

General COX. Here, again, I would use the same analogy that I made on our ability to do a hostage rescue operation. The forces that I described generically, that would do another Desert I type operation are those same forces that I think one could logically want to use if we were faced with a situation similar to the Grenada operation today.

We are better exercised; and we working together better. The units are up to the required standards, not only of training, but also the resourcing and the numbers of people to do the job. This is the best it has been in the last 6 to 7 years.

So my answer basically is saying, yes, we can do the Desert I type operation much, much better. I would say that that would hold true also with the Grenada type operation as far as being able to plan for and execute it with the forces that we have under the Special Operations Command.

Mr. HUTTO. One of the big problems has been communications. I guess the whole C^3I—how are we doing there? What are we doing to improve that?

General COX. Through the first few months of the existence of the command, we recognized that that was one of many challenges we had. Our Director of Communications took that on immediately to put his finger on the problems that have existed in the past and come up with what is now known as the Special Operations Communications Master Plan. That master plan was published about 5 months ago and it lays out the problems, where we are and where we are going and what needs to be done and the communications architecture from the headquarters level down to the teams in the field.

So I would say that we are not there yet as far as correcting the deficiencies and the problems, but we certainly have identified them, created a plan that will lead us toward the solution to those problems and it is certainly one that is recognized within the command and has considerable emphasis.

In fact, the number one priority in the command, as far as acquisition of equipment, is in that area. It is called the JASORS, Joint Advanced Special Operations Radio System, and we have money for its research and development.

Mr. HUTTO. When will the IOC be for JASORS?

General COX. I believe the present funding for the JASORS research and development and testing is up through 1993, but I will take that question back for the record.

[The following information was received for the record:]

The JASORS consists of intra-team radio, manpack team radio and an integral base station forming a multifrequency band and multi-function communications capability to support joint special operations teams. The inter-team radio with a small hand held short range radio capable of handling voice and data operates in the 30 to 3,000 MHZ band with both communications security (COMSEC) and low probability of intercept (LPI)/low probability of detection (LPD). The intra-team radio will interoperate with the manpack team radio. the manpack team radio will operate in bands from 3 to 500 MHZ and provide long range secure and LPI/LPD communications with distant base stations. While voice and data (including still and motion) video will be used with both the intra-team and manpack team radios, the normal input/output will be an enhanced digital message entry device similar to the special operations improved COMSEC system (SOICS), which is included in this developmental effort. A support system is also required to provide accessory, applique and adapter items such as power sources and rechargers, vehicular power adapters, antennas, repair spare parts kits, extended frequency range modules, base station processing and receiving kits and specialized test equipment to meet the complete range of mission requirements. The base station capability must be integratable into existing AN/TSC-26A/99, Navy and Air Force implementations as well as the table top configuration. In addition the base station variant of the manpack team radio must be able to be installed in airborne, shipboard and vehicular platforms as well as a forward operating base (FOB). Base station COMSEC will be provided by an improved version of SOICS. JASORS is a developmental program to be completed in an evolutionary manner with the early equipment items having pre-planned product improvement (P^3I) capabilities for the later incorporation of system enhancements as they are developed, tested and adapted for field use.

FUNDING

I. RDTE

A. PDIP: CP6V (Army)
B. PE: 23751 E14 RDTE JASORS

	Fiscal year 1990 [1]	Fiscal year 1991 [1]
Required	14766	15035
Programmed	14766	15035
Unfunded		

The program is fully funded in the remaining FYDP years.

[1] Application of inflation figures created the odd numbers in the program.

II. PROCUREMENT

There are not procurement requirements in the President's Budget for fiscal year 1990-1991. First unit equipped date is fiscal year 1995.

So, hopefully, we would be able to field that low probability of intercept, low probability of detection radio sometime shortly thereafter.

Mr. HUTTO. What do you believe should be the focus of Congress in the coming year and beyond regarding Special Operations? You touched on MFP-11 earlier. Do you believe that there is sufficient existing legislation to accomplish full implementation of the budget process?

General COX. Yes, sir, I do. Although it has been slow in coming as far as being given the authority to execute what was in the law, I think that undoubtedly now that the log jam has been broken, we will be able to do what we have been charged with doing.

I do not see any legislated needs that we would expect that would enable us to do that particular function now. What remains to be done before we really get into the preparation of the POM for

1992 is to figure out how we are going to interface with the services in the PPBS business. That will result in auditing, if you will, those things that are in MFP-11, as well as looking at things that might not be, but should be, and then coming to agreements with the services as far as budget construction and budget execution and who does what to whom.

Those agreements are, as we speak, being pursued with the services that will result in formalized memorandums of agreement, between USSOCOM and the services that will describe how we will interface. It will not be a cookie-cutter approach because each service is a bit different, so we will have to accommodate the differences in the services when we prepare those MOAs.

So my answer on the legislation is, especially in the area of MFP-11 and the resourcing task of the command, I don't see any need to force the hand on somebody's part.

Mr. HUTTO. For our new members who may not be familiar with MFP-11, that is Major Force Program 11, which gives budget authority to the Special Operations Forces. This is something in our legislation creating the U.S. Special Operations Command that we thought was vital because, in the past, the services obviously held Special Operations as a low-priority and just would not request funding. If they had to make cuts Special Operations would be the first to be cut.

So, we thought that it was very important for Special Operations to have budget authority so that they could get the resources necessary to deal with any eventuality which is the most likely scenario that we face in today's world.

Mr. Bilbray, do you have questions?

Mr. BILBRAY. No, Mr. Chairman.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. I do, Mr. Chairman.

Mr. HUTTO. We are operating under the 5-minute rule.

Mr. LANCASTER. General Cox, you indicate that you need qualified linguists and that the DOD language working group has been established to work out these language problems.

If you would, tell us a little bit more about what is happening in that particularly crucial area.

General Cox. We have a contractor, as a result of this working group, who is taking on the task to assist us. In fact, we have the first course—I think it is 100 people, who are going through this revised language training at Fort Bragg, I believe in March. That will be the pilot test of the effectiveness of a new approach to teaching a Polish boy from Chicago to speak a language that may not be akin to any other language he may be acquainted with.

The problem is one of teaching difficult languages to people who may or may not have a second language speaking ability. You just don't find that very often in the general population of the United States. So we are virtually taking somebody that doesn't have any ethnic ties, or certainly no direct language ties, let alone a second language, and teaching them a difficult language like you might find in the Middle East or Southwest Asia.

So the issue is one that has been recognized. It is one of our major problems. It has been recognized by the fact that we had this working group get together and their immediate hoped-for fix that will be tested in March; and it is being overseen and administered by the contractor.

Mr. LANCASTER. General Lindsay and I met recently and we talked about this problem, about the need for actually recruiting more people who have native language skills. What are you doing in that regard? Rather than trying to teach people who don't speak it, why not find people who have spoken a language in their home?

General Cox. The U.S. Army has been asked to do this. This is not a new problem, as I am sure you are aware. This approach has been tried before with limited success. The recruiters are told specifically to identify people who indicate they have some capability, ethnic background, or education in a particular language. Of course, they try to steer them our way.

Right now, they are not going out into ethnic neighborhoods in particular cities, to my knowledge, and trying to actively recruit people that way.

Mr. LANCASTER. Why not?

General Cox. I am not sure exactly why, but I can provide that answer for the record to further expound on your question.

[The following information was received for the record:]

The Special Forces recruiting team for the U.S. Army Recruiting Command, based at Fort Bragg, maintains a data base of soldiers with evaluated language skills. On recruiting visits, soldiers at the visited installation who have high scores are contacted regarding recruitment into special operations. Since the Army special operations entry grade levels are captain and staff sergeant, inservice recruitment for special operations personnel is necessary. Therefore, recruiting ethnic speakers, off-the-street, is not a viable option. No specific actions are currently being taken to recruit individuals into Special Operations solely upon national or linguistic background. However, every effort is made to assign native-speaking ethnic personnel, who are special operations qualified, to units requiring their language skills. The office of the ASD/LIC has this problem under study and we are working with them to develop an OSD plan of action.

Mr. LANCASTER. You say in your statement, and I quote: "Another sustainability concern is the dependency of deployed Army SOF on existing theater support structures. Theater logistics commands have not clearly established a SOF logistics structure."

You go on to recommend establishing an in-theater Army Special Operations headquarters to improve the situation. Is it only the Army that can't provide in-theater logistic support?

General Cox. That is the biggest problem area. I would say the problems are very minor in the case of the Navy and the Air Force. The Army has more support associated with their Special Operations and Special Forces, and so the magnitude of the problem is greater. The theater Army Special Operations Command is being tested in Europe. This a direct effort on the part of the Army to try to do a better job of providing the support to the Special Forces deployed in the theater and to correct that problem.

The results of that test will allow the Army to decide whether or not they want to proliferate that concept to the other commands. In fact, in the Pacific Command, they are looking very closely at what is happening in Europe. They are prepared to replicate that, assuming it is going to succeed.

So even the medium-term solution, I think, is there, and we are looking forward to it.

Mr. LANCASTER. When the whole idea of SOF was a joint mission. How is establishing a single-service headquarters going to solve anything? Are we not going back to a fragmentation that we tried to get away from in setting up the SOF?

General Cox. That is a very good question, and I almost hate to open Pandora's box with that question to talk about it, but at the heart of the problem is just what you have mentioned. That is, that the Goldwater/Nichols Act assigned these overseas forces to the theater CINCs. In the case of Cohen-Nunn amendment which was to bring SOF together, you assigned only CONUS based forces to the Special Operations Command. What that in effect did was allow the fracturing, as you put it, of overseas SOF in some ways from what had prevailed before the legislation.

For instance, the U.S. Army First Special Operations Command at Fort Bragg previously had operational command of the forward deployed Army forces in Europe. With the legislation, the operational command has been given to the commander of U.S. forces in Europe.

That makes it more difficult for us, as USSOCOM, to fulfill our support of all of the SOF because those forces are not under our command, let alone our operational control. So I won't say it is a fault in the legislation; the problem is a result of the legislation. It is one that I can't suggest to you how we will conquer it.

Having said that, USSOCOM is responsible here in the United States for resourcing Special Operations peculiar equipment for the overseas units as well. So we are in a supporting role to those units and we have to make sure that those personnel get the correct training and equipment to do their job in Europe. Those units are under the operational command, in the case of Europe, not of the Special Operations Command, but of the Commander in Chief, U.S. European command.

Mr. LANCASTER. But is the way to fix the problem setting up a separate service command or coming back and saying we need to fix the problem in a more basic way than was anticipated and was, in fact, the goal of the Goldwater/Nichols legislation in the first place?

General Cox. Of course, as you realize, Mr. Lancaster, that is not our call. The commanders in chief in the respective geographical areas have the authority to organize their forces however they see fit. That is, in fact, what has happened.

Mr. LANCASTER. Let's talk a little bit about the Special Ops airlift requirements. What is the status of that program now, are there any problems and, if so, what are the recovery plans and what will be the additional costs? If you would, please explore that a little bit with us.

General Cox. Some of the problems of additional costs are certainly evolving at the moment because the services are going through some cut drills. General Porter, who I believe is going to be testifying before you next week, will have the latest information in that regard. But let me just say a couple of things and I would defer the rest to General Porter. I would think by next week, certainly because of the deadlines that we have on submitting the data, that the services will have scoped out their cuts for 1990–1991.

I would have to say that although we are not getting the airlift requirement satisfied as quickly as we would like, the programs we have on the books will get us the forces we need to fulfill the obligations and the requirements of the geographical CINCs.

The problem is the tendency to push into the out years some of the procurement, along with some of the development. Problems have existed, for instance, in the combat Talon II program, and also in the CV-22. The CV-22, which is a full developmental effort, has not as yet flown.

So the answer to the airlift problems is out there, the plan is there, the program is basically there, but the delay in getting it, because of budgets cuts, and developmental problems have delayed the fielding. In the case of the Talons, it is going to be 1990 before we get the first operational airplane. There have been some problems associated with that program, so we don't have new Talons yet.

So we are in good shape on——

Mr. Hutto. If the gentleman will yield on that subject, what is your understanding, General Cox, of the current status of Initiative 17 as it pertains to Special Operations airlift requirements?

General Cox. I know I don't have to remind you, Mr. Hutto, about Initiative 17, but for the benefit of the other members who may not be that familiar with it, Initiative 17 was an agreement between the Chief of Staff of the Air Force and the Chief of the Staff of the Army to move all of the helicopter support for Special Operations Forces to the Army. In other words, the Air Force would get out of the SOF helicopter business.

For a number of reasons, and there is a long history that some of the members are very familiar with, initiative 17 was not consummated in the short term. There were problems associated with it. One was that the Army, I know, felt that they were going to have difficulty, without losing SOF air capability for x period of time, to be able to take that mission over, especially if it meant transferring airplanes from the Air Force to the Army.

So, along with that, the funding for the modification of the 53s to give the kind of capability we need—and the 53s belonging to the Air Force—put Initiative 17 over in the corner, shall we say, as far as something that was a short-term goal.

If you were to ask the Air Force or the Army what is their intention on Initiative 17, my estimation is that they would not use the term alive and well, but that it will eventually happen probably with the fielding and full operational capability of the CV-22s.

So Initiative 17, per se, is not one that we as a command have dabbled in as far as the relative merits associated with it. It has simply been that USSOCOM has an airlift requirement which has been enunciated and then verified. I believe 106 is the number of vertical lift platforms needed to do the Special Operations mission.

We would see with the fielding of the CV-22s the MH-47s, that we would have a sufficient force to fulfill that SOF airlift requirement with those verified numbers.

Mr. Hutto. General, I think I hear what you are saying. I am a little bit confused, though. It seems to me that the Pavelows, as I understood it, would be used until the CV-22 comes in. I don't quite figure out where the MH-47 comes in.

Would there be a need of that if we go forward with CV-22s?

General Cox. Mr. Chairman, what the MH-47 does for us—it gets us closer to an interim capability, to the requirements that are eventually satisfied by the CV-22. For instance, if the MH-47s were procured and put in the field, we would get that platform somewhere around 1993. The full operational capability of the CV-22 will not come on until 1998 under the present program, and we are looking at some unprogrammed slippages in that.

So what you would have is an interim capability, although not fully satisfying our requirements with the mix of MH-53s and MH-47s an interim capability that would allow us to better do our job for a 5-year period when we would only have approximately 50 percent of the required vertical lift capability represented by the MH-53s alone.

Mr. Hutto. At the point that the MH-47s would be utilized, who would be handling that mission, the Army or the Air Force?

General Cox. The MH-47s would be operated by the Army.

Mr. Hutto. In combination with the other——

General Cox. The Air Force would continue to operate the MH-53s until somewhere near full operational capability was gained by the CV-22s. At that point in time, I would assume that the Air Force would put MH-53s into their air rescue force.

So then SOF would have the 47 Echos and the CV-22s that would fulfill that validated requirement for lift platforms for the medium- and long-range vertical lift for infiltration——

Mr. Hutto. Do I hear you saying that in the interim, when you have will have MH-47s and 53s waiting the IOC of the CV-22, that you would have both Army and Air Force involved?

General Cox. That is correct.

Mr. Hutto. Both?

General Cox. Yes, sir, that is correct.

Mr. Hutto. Mr. Tanner?

Mr. Tanner. Thank you, Mr. Chairman.

General, this week, sometime, maybe two afternoons ago, I think, we had a man from the IG's Office, Mr. Vander Schaaf, here who had some comments about a study—I don't know if you are familiar with his study or not—but I was reading on page 2 of your statement about interaction between your command and regional CINCs.

Could you explain how that works? You say here that you must, therefore, be an integral part of the individual regional CINCs' joint strategic planning system. How do you do that?

General Cox. At the moment, we are providing planning assistance as requested by the regional CINCs for their contingency or concept plans or their general war plans. But each one of the regional commanders in chief has a small staff—in fact, a small Special Operations Command—I don't know whether you are familiar with the term, but in the case of Europe, they have what is called SOCEUR, Special Operations Command, Europe. They have 39 people on that staff.

What we do is if the SOCs don't have the planning capability within their own staff for Special Operations, they can come to us. I can tell you that because of the small numbers of people on those staffs, in all the commanders in chief areas, they do not have a full capability in Special Operations planning.

So as a supporting CINC, USSOCOM will provide planning assistance to those regional commanders as required. Also, they are very good about including us in reviewing those plans to make sure that we are training and providing the forces that are required to do their respective missions.

Let me add one more thing. We have underway at the moment, what is called the Joint Mission Analysis. We are presently working with the U.S. Southern Command in the initial effort. Joint Mission Analyses takes about 4 to 6 months per geographical CINC. As we sit down with those CINCs and their staff, we look at high-intensity conflict, medium-intensity conflict and the low-intensity conflict. We try to describe those environments and look at what is required in that particular area. We look at the Special Operations Forces of that CINC and what he thinks he needs to do the job. We try to match those plans and his regional strategy with what we are providing him in the form of people and resources. The result of that Joint Mission Analysis will be a living document that will be updated at least annually and hopefully more so if required. That will allow us to examine the CINC's plans, after we have participated with him in the planning thereof, to make sure that we are resourcing the SOF force that he needs to do the job.

That Joint Mission Analysis started about 6 months ago. We should finish up the Southern Command in 2 months. We have already started the Pacific Command. One of the major utilities of examining those plans and analyzing what has to be done in each theater will be to—help in the construction of the POMs; to be able to make sure we have the right resources to support those regional CINCs. So the results will be used for the planning, programming and budgeting system that will lead to the fielding of equipment and appropriate numbers of personnel.

Mr. TANNER. The other night, the President spoke about using Special Forces in combating drugs, implying, I suppose, at the source. You spoke about the U.S. Armed Forces South. Do you have a role, and can you talk about it in open session about your capability, in that regard?

General COX. I can certainly, in open session, talk about the capability. Without going into the details of what is happening at the national level and with DOD and the JCAs and what will be done as far as military support of the anti-drug effort, USSOCOM's capabilities are very good for providing training to people in countries where problems are being combated.

One of the examples where we are doing that right now—I won't name the country—is where we are working with the indigenous forces there to give them the tactical skills, that they would use in eradicating the facilities, and the people, if you will, that are producing drugs.

In certain countries, we have teams in the field. In fact, General Lindsay, the Commander in Chief of our command, just came from this country within the last 3 weeks. He visited the units that are training and assisting the indigenous forces there. Our forces are not actually involved in the operations that would go in to, say, destroy the facilities that are making the coca paste, but advising and telling the indigenous forces how to do it and assisting them in that way.

So we have a great deal of utility and capability to teach those kinds of skills and we have the language capabilities, especially in the case of Latin America, to be able to go and work with those people for them to correct the problem. I think it is generally perceived that they have to correct their own problem and we should do everything we can to assist those countries in that effort.

Mr. TANNER. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Tanner.

Mr. RAY. Thank you, Mr. Chairman.

General, its good to have you here today. I want to talk a little bit about your Special Ops aircraft. How many had we projected to purchase? I don't recall that number.

General COX. The total program, we would have to address in closed session, but——

Mr. RAY. That would include the number?

General COX. Specific numbers, yes.

Mr. RAY. OK.

Let me just say this. I am informed that the cost has increased to the point that we are not going to have the funding to purchase the number that we wanted to buy. Is that right?

General COX. In the case of the MC-130s the program did go over cost. The Air Force is in the middle right now of, as the result of a program budget decision, putting additional, sufficient moneys into the MC-130H program to bring that up to the total number of aircraft that have been validated.

In the case of the MC-130 combat Talon II, that number is 24 and that is not a classified number. So that program, which has had some cost overruns, continues to have problems that the Air Force has, thus far, continued to step up to.

Mr. RAY. So you think, then, we will meet the 24 number?

General COX. The intention of the Air Force, per General Welch, the Chief of Staff, is that they will fund and field that system.

Mr. RAY. Is that finalized out in 1990?

General COX. No, the program goes through 1993, I believe.

Mr. RAY. OK. You are currently having to contract service on those planes, aren't you, maybe out at Lockheed in California, is that correct?

General COX. They have some overhaul and modification facilities for Talon Is. In the case of the Talon II, they are taking a basic C-130 as it comes out of the Lockheed production line and it goes out to California and they put the Talon II unique equipment on it, less the avionics——

Mr. RAY. I see.

General COX. That makes that otherwise vanilla C-130 a Talon aircraft. Just for an example, the ramp and door on the rear of the aircraft has to be beefed up for Special Operations. They do that out at Ontario.

Mr. RAY. I guess I was talking about the existing service on those Special Ops planes. We don't have the security facilities right now, but we are building those at Robbins Air Force Base so that we can eventually put your maintenance service there, is your service cover satisfactory?

General Cox. It is my understanding that the intention of the Air Force Logistics Command is that eventually they will take over full support of that system.

Mr. Ray. We are hoping that will be in about 15 months or something like that.

Thank you. Those are all the questions I have, Mr. Chairman.

Mr. Hutto. Mr. Dornan.

Mr. Dornan. Thank you, Mr. Chairman.

General, good to have you here. General, I am a new member on the committee, but not new to tracking the readiness of our armed services. I set an ambitious goal for myself last year—I am an optimist, so I planned to come on the committee this year. I visited within a year's span, a year-and-a-month's span, all of our 10 combatant commands.

I was impressed at the quality of your briefing in Florida, and I don't recall if you were onboard about a year ago—were you?

General Cox. I came onboard in the latter part of June, 1987, as the Director of Operations.

Mr. Dornan. Right.

General Cox. Then, subsequent to that, I moved to my present position.

Mr. Dornan. One of the things we discussed down there was how happy everyone's morale was that the command was even formed, and that it was one of the more positive roles that Congress played in impacting upon the defense structure. Everybody seemed to agree that Congress was more wise than a lot of generals and high-ranking civilians in the Defense Department—that there should be a Special Operations Command. I was always one of those who believed that there should be also.

When Congress mandated that National Defense Authorization Act in 1988 and 1989, here was one of the lines in that. "On September 30, 1988, the total number of members of the Armed Forces and civilian employees at the Department of Defense assigned or detailed to permanent duty on the staff of the Unified Combatant Command for Special Operations Forces may not be less than 450."

Could you tell us, sir, the number presently in place today, how you have the funding in the current budget for those mandatory 450 persons, and if you have reached that number?

General Cox. Yes, Mr. Dornan.

I will provide for the record the exact percentage of those numbers. As I recall, we are about 93 percent toward that figure, not only for military, but also for the civilian mix that we are authorized.

[The following information was received for the record:]

Headquarters USSOCOM has 472 (373 military and 97 civilian) authorizations and exceeds the mandatory manning level of 450. The command currently (March 1989) has 349 military and 90 civilian positions filled. The balance are in various stages of nomination and recruitment. All authorized positions are fully funded in the current budget.

May I say, we very much appreciate that. I do not think—if we had not had that plus-up and would have had to live with the numbers that we were mandated for when that was passed, that our progress to date would have been inhibited greatly.

What follows on to that is the fact that we still have a manpower bill to pay to be able to do the planning, programming and budgeting for POM, starting with POM 1992 and thereafter, as well as being able to have sufficient numbers of personnel to do our acquisition task for SOF-peculiar equipment.

So that 400 and—I think 472 is the figure that we are now dealing with—is a very good figure for the moment, but our eventual headquarters size in order to fulfill the intents of the legislation, as we see it, runs upward to about 600 people. So we are looking for an addition of somewhere around 130 over the next couple, 3 years to be able to do the things that we need to do.

In the instance of just the planning, programming and budgeting, we have 51 people onboard to do that right now, which we are already into. We are going to need about 41 personnel to support acquisition responsibilities. So this is going to be a problem for us to work with the Joint Chiefs of Staff, and the services and the fact of the matter is that as far as we know right now, we are going to need those people in order to fulfill the legislation.

We have already done some internal trade-offs, if you will, and taken personnel authorizations from other functions and put them into the programming or the budgeting functions. In fact, we have done an internal realignment of 22 people and taken them out of other staff functions such as intelligence or communications and put them into budgeting in order to fulfill that requirement.

So we are well on the way to filling the slots that we have been given to do the job. Some of that lack of 100 percent is due to people leaving and people coming in, so we are just about up to the numbers and mix of people with Special Operations expertise especially and the other requirements that we have for personnel.

Mr. DORNAN. All right.

General, a lot of Americans, let alone members, sometimes fail to analyze that when we run through our 13 appropriations bills, the smallest funding bill—just around a billion dollars—is the State Department's, and it is so small that we actually put it in with the Judiciary and Federal Courts. But if you look at the importance of the State Department in the age of terrorism and just the face that America puts around the world, obviously the President's cabinet officer that he picked first was his Secretary of State. He is in line to be President after the Vice President and then the Speaker of the House, Senate Pro Temps, and yet their budget is the smallest.

I think as we see the next decade go by, although your budget is quite small by comparison to the Strategic Air Command or Transportation Command or a growing Space Command, you may end up the smallest. Are you the smallest now of the 10 combatant commands in just raw dollars? You certainly must be.

General Cox. I am sure that we are quite small, but—yes, I would have to say that it the truth, although I can't give you any figures.

Mr. DORNAN. I believe that in the stature department, as the years go by here, you will be like the State Department, as it is to all of the other branches of Government, prime in importance because of your visibility to Americans in an anti-terrorism role and in this Joint Mission Analysis aspect of low-intensity conflict and that sort of thing.

I know this committee wishes you well. We are at your disposal to make sure that everything you want is there and you play a role as a deterrent to terrorism. Do you have V-22 aircraft in the budget in the planning, I should say, in the out years, as assigned aircraft?

General Cox. Yes. Fifty-five is the number of CV-225 we are looking for by 1998.

Mr. Dornan. Like Central Command, where your command is at McDill, but their assets are in the Middle East—I have never had anybody really explain that to me except that, I guess, the bottom line is we are infidels and we are not allowed to have our command headquarters to help them on their soil or anywhere near them, but your assets will all be at Eglin Air Force Base? I mean, say, 90 percent of them or 80 percent of them?

General Cox. We see with the force build of Air Force Special Operations, and I will give you a short answer to that, that we are going to have to have a second operational base within the United States. Because you are talking about, the increase in numbers of Talons and helicopters and CV-225, there is no way that we would be able to keep them all on one base. Plus the fact that we need to service our—service isn't a good word—support our Special Ops Forces, for instance, on the West Coast. You have SEALs and Special Forces on the West Coast and their air support is basically on the East Coast.

We have to shuttle airplanes back and forth to provide support for their exercises. It would be very logical to put some of the forces that we are acquiring in the mid to late 1990s on the West Coast where they can train and work with the forces they have to support, rather than flying them all the way across the United States.

So we see that sometime in the mid to late 1990s, we are going to need a second operational base in the continental United States because of the sheer numbers that will be in the continental United States of the SOF airlift force that we seek through the end of the 1990s.

Mr. Dornan. That is fascinating. Thank you——

General Cox. I might mention just one more thing, Mr. Dornan, and I am certainly responding to your cheerleading on the part of the budget—the Special Operations Command is less than 1 percent of the DOD budget, through 1991.

Mr. Dornan. I think anybody who makes this a field of study can find out very quickly how very close American forces have come, very close, to being used in rescue operations, and these are just vagaries of luck and faith that there isn't really any gigantic success mission in recent history. I noticed the figures just the other day on terrorism deaths around the world and because of the shoot-down of a Pan Am 747 over Lockerbie, Scotland, even our American figures, because of that one incident, has made it our worst year for terrorism death, but for the world in general, compiling all of the smaller terrorism incidents, it is considerably higher than 1987. Terrorism is out there, it is growing, it is getting more sophisticated; the explosives that come out of Czechoslovakia have incredible potency, easily set off, easily transportable without much danger to the bombers, and it is a key role you have in that area. The House will probably have blood all over the floor here, political blood, when we start the fight on the contras again. I, for one, see absolutely no distinction to a rational, freedom-loving human being between the freedom fighters in Nicaragua, Angola or the success story in Afghanistan, but that is our political problem and I will follow your report on the Joint Mission Analysis with Southern Command.

I might say that their briefing was as good as any of the other nine commands. Their's was an excellent in-depth briefing, and I recommend it to all members, to get your heads straight on the Western Hemisphere, Latin America, the growth of communism, the growth of terrorism, the cocain cowboys, the whole scene. The briefing is waiting for you there in depth at Southern Command.

Thank you.

Mr. HUTTO. Mr. Dornan, one of the good things about Special Operations Forces, I think we will be able to have more appeal since—you had a correlation with the State Department—since this is not foreign aid.

Mr. DORNAN. That is right.

Mr. HUTTO. Mr. Kasich.

Mr. KASICH. Thank you, Mr. Chairman.

For the new members, I just want to say that I think it is important that we get a pretty good dose of what SOF is all about and I think one of the things that should be done, General, is perhaps you ought to put together a program so that some of the newer members can go down to McDill and get that briefing, along with some of the others that we don't want to talk about in here in this environment.

The other thing is that there has been a lot of success in SOF, great success, particularly when we were in the Gulf. There were retaliatory actions taken by the United States that required great precision and there were SOF forces that were involved. One of the things I know has frustrated a number of us, the chairman and Mr. Cofer, is the fact that many of the things that we do in SOF nobody ever hears about. I have a great concern, but even though we have had a great victory with Major Force Program 11, most members really don't know what SOF is all about because, while you may have been successful in doing certain retaliatory activities, which I would talk about except I am not sure of the classification level, while we have had great success in a number of things that we can point to that SOF has accomplished, people don't know about it.

There is a growing sense on Capitol Hill, that is, what SOF is doing with all this money. So it is important, first of all, for our members to be fully briefed, and then second, as I mentioned to the chairman yesterday, it would be nice if we could have a hearing in the open where we can talk about some of the more recent victories of SOF, mainly those in 1987 and 1988, particularly our involvement in the Persian Gulf and what SOF forces were able to do.

I, myself, am very pleased with the progress in the area of antiterrorism. I think what we have been able to achieve there is greater interoperability between the services. I think the funding levels have always been pretty good. It is the interoperability that we have improved and I think that is marked. But, I still believe we have a dramatic problem in the area of low-intensity conflict. I don't think we have made the progress in low-intensity conflict that we need to make.

Now that we have a Major Force Program 11, I think you now have to be accountable for the dollars that you spend more than even before. I am concerned that you don't have the language specialists, that you are not up to speed in the area of cultural understandings in many parts of the world. Bob Dornan talks about our own hemisphere. If you were to talk to many people about the problems in Peru, most of them couldn't even point to a map and show you where Peru is.

But, as you know, the problems in Peru that are drug-related also have a cultural orientation and there is talk about Special Forces, perhaps, being involved in that area of the world.

I am very concerned that we do not have good progress on low-intensity conflict and maybe you could give us a brief update as to where we are and what our shortcomings are at this point in time.

General Cox. I know that you are aware that there has been less than overwhelming response in the executive department as far as meeting the charter to define low-intensity conflict and to see what it is we need to do about it and develop policies. I would hope that this administration—and there are a lot of indications that this will take place—that emphasis, major emphasis is given toward creating the requisite staff at the NSC level to deal with the policy issues that will allow certainly DOD, and certainly U.S. Special Operations Command, as well as other departments and agencies of the Federal Government, to be able to play in this very difficult national problem and not only LIC, but certainly as far as drugs are concerned.

So I think that if one were to be hopeful that that takes place, I think that a lot more things will come together.

If we want to talk about licking narcotics at the moment, let me just draw——

Mr. Kasich. General, I don't want to get into that specifically. What I am concerned about is the chairman had a hearing over 1 year ago with General Lindsay, where Mr.—from the congressional Budget Office or—what was his name, our good friend? John Collins. Excuse me. If John Collins has a spy in the room, I am sorry. He is a brilliant man.

John Collins came in a year ago and said we are doing very poorly in the area of low-intensity conflict, we have not solved any of the problems associated with low-intensity conflict, and General Lindsay, at the time, said our great focus and our great goal is to resolve the problems of low-intensity conflict.

You are here today to say—and I am glad you are forthcoming in your testimony—but you are saying to us that today we still haven't focused on low-intensity conflict and we still do not have a definition of what we mean by low-intensity conflict. But, at the same time, we don't have a definition of it. We are talking about committing Special Forces to low-intensity conflict operations in our own hemisphere when we haven't even defined, from a force structure point of view, what we mean by it.

So when are we going to move—what can we do? What can this subcommittee do to move us beyond the internal arguments about what is the definition of low-intensity conflict? What can Earl Hutto and I, and the rest of the members of the subcommittee, do to get us on track so that we make progress in this important area?

General Cox. I hope you won't regard me as being tutorial in this, but as you know, I am sure, in the legislation, as it refers to our command, as far as LIC is concerned, it doesn't directly refer to our command. The Assistant Secretary of Defense for Special Ops and low-intensity conflict, yes.

I would say, without trying to cop out, and I won't, because I will comment on this, I think that those are valid questions that certainly should be asked of DOD and Ambassador Whitehouse.

What can we do? There is a lot we can do. I am not sure if you were in here when I talked about the Joint Mission Analysis or not—were you, Mr. Kasich, earlier?

The Joint Mission Analysis that USSOCOM is doing with the regional CINCs is to specifically look at low-intensity conflict, mid-intensity conflict and HIC, but the concentration is on LIC. I don't like those acronyms, but that is what we are working on mainly.

We are working with the Latin American Command, obviously, the U.S. Southern Command, to try to describe that environment as that CINC sees with his strategy and what exists and the problems in that area, to see how Special Operations Forces can fit into conquering that problem in that area. He is very much looking forward to results, which is jointly being done by the U.S. Special Operations Command and the Southern Command. The JMA report will be out in June of this year, which will describe how USSOCOM will support that CINC. Because after all, as you recognize, the forces—we provide the forces to that commander in chief for him to use in the low-intensity conflict environment of Latin America.

We are going to do a joint mission analysis with each of the commands throughout the world. So if you would say to me, what are we doing as a command? I think that is the single most important thing, and that we obviously have forces that have high utility in low-intensity conflict and we are at the beck and call of those CINCs as a supporting command. USSOCOM is out there trying to describe the environment through this analysis process where we can do a better job to satisfy the LIC strategy for that particular area.

Mr. Kasich. Mr. Chairman, I have no further questions, but I would have one request, and that is, would it be possible—I know the new members—when you hear about what do we mean by low-intensity conflict and all that, what it really gets down to is if we have a conflict somewhere and we have to send our people, we can't only deal with things militarily. It may mean that we need cultural answers to the questions which involve security assistance and a number of other things.

I wonder, Mr. Chairman, if it would be possible—I know we have a busy hearing schedule, but to bring Mr. Whitehouse in to talk about the progress in low-intensity conflict, what resources he needs, what are lacking, in order to make sure that they go together with these folks. These folks are going to have to be—they are driven. They are the forces that are going to be employed under a low-intensity conflict and I think we have to get Mr. Whitehouse up here and have him talk about that sometime in the near future.

Mr. HUTTO. We will.

Mr. KASICH. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Steffes has been working with us on Special Operations Forces. Do you have some questions?

Mr. STEFFES. Just a few, Mr. Chairman, if I could.

It is my understanding that the special air crew training function will be transferred to Kirtland Air Force Base, NM. I also understand that to accomplish this, the Air Force will establish a new training element at this location for other support personnel.

If all that is to be accomplished is training, why do you need to establish a complete new element with all the support personnel? Couldn't the unit that is already at Kirtland, which does similar training, just do the training that you intend to accomplish at Kirtland?

General COX. Yes, Mr. Steffes. The organization that presently exists at Kirtland is a combat crew training wing. The name will be changed to better connote what it does—it will be a Special Operations Training Wing.

The wing structure already exists with the present commander and staff. What is being done, with agreement between the Military Airlift Command and the Special Operations Command, is expanding the capability of that existing training wing to accommodate Special Operations air crew training for MH-53s and MC-130 crews.

The increase in numbers of personnel are as a result in the increase in the numbers of aircraft to be able to maintain them and fly them and to take advantage of the training environment that exists out there for those two particular aircraft. Actually, also the HC-130s, (tankers) that support our operation also train out there, but that has been in existence out there previously.

So it is to take care of the increase in numbers and the fact that you accrue the training function out at Kirtland, New Mexico.

Mr. STEFFES. What will move from Hurlburt to Kirtland to accomplish this? Is there a unit already there that is physically relocating or is it a brand new stand-up?

General COX. I would say that the function of what is presently called the Central Training Flight at Hurlburt will transfer to Kirtland. The numbers of people with that, I can't tell you because what you have is a force build at Hurlburt with the accession of the additional MH-53s. You have part of the training function that will go out to Kirtland and I can provide for the record the numbers to answer that question. But there will be numbers of manpower slots and personnel that go with that that have the requisite experience that will form the cadre of the air crew training instructors that will have to be at Kirtland in order to do that job.

[The following information was received for the record:]

There are 19 personnel assigned to the Central training flight. Six will remain at Hurlburt with 13 departing for Kirtland. It is important to note that Hurlburt is in the midst of a time-phased personnel buildup to accommodate the programmed acquisition of new Air Force Special Operations aircraft.

With the over four-fold increase in the numbers of Pavelows alone (MH-53s,) we are talking about a force build quadrupled for maintenance, as well as instructors, so we are having to build a force and build the instructors and build the infrastructure to support that at both Hurlburt and also at Kirtland to take care of the numbers of airplanes and crews that have to go through there to train and subsequently go to their permanent units.

Mr. **Steffes**. I have also heard that there has been assigned an Air Force brigadier general at Kirtland or will have SOF responsibilities. Do you know who he is, or what he is, and what his title is, who he reports to, what is chain of command is?

General Cox. The present plans, as I understand, is that there will not be any change to the rank structure of that organization. It will be—the wing that is now called the Combat Crew Training Wing and will be a Special Operations Training Wing. It will be commanded by a colonel. That was what it was yesterday afternoon when I left McDill.

Mr. **Steffes**. Just one more question, if I could, General Cox.

In your prepared statement, you stated that there have been several interoperability enhancements at the various SOF schools and that all of the services are attending consolidated courses in basic and advanced medical, airborne, communications and dive skills.

In the President's military construction budget request, under the Army section listed under Fort Bragg, there is a request for $6.1 million to construct a Special Forces training facility. Further looking at that requirement, it appears that that is going to be built at Key West, FL. I am not really sure why it is listed under Fort Bragg, except for the parentage of it.

Further looking at the justification, it says that these facilities are to serve the Special Forces training in combat diving and underwater skills. These facilities include a barracks, dining facility, admin. building, classroom and a dive tower.

There is a little disconnect from what I read in your statement and what I see in the military construction budget request and I guess my question is, why are we building a dive facility for the Army at Key West? Aren't there other schools that the Navy runs, particularly at Pensacola or at Coronado, that could do this training?

General Cox. First of all, to get the issue of interoperability, one of the things that we have done is that we have made our Navy component the focal point for all maritime training and that involves both Air Force, Army, as well as, of course, Navy. They set the task conditions and standards for all of the combat divers of all three of the services of our components.

The facility that is at Key West is the facility that has been there for some time that was part of the John F. Kennedy Special Warfare Center, where they train Army personnel in diving skills. If you look at the sheer numbers of people who have to be trained in the Navy and in the Army, not one existing facility can accommodate that. It was looked at to see if that could be done at—if that training for the Army divers could be worked into Coronado—this was some time ago—but I don't think that was coincidental with the request for moneys to create the facility or improve the facility at Key West.

The answer to your question is that in order to do the total training task, these new facilities are needed at both places, and the Navy is the lead and we will standardize the task conditions and standards and, within the capabilities of those facilities and their staff, will do the training at both locations. The location at Key West is for training Army divers.

Mr. STEFFES. Only Army. Will it be run by the Navy or the Army? It will be run by the Army?

General Cox. Yes, that is right.

Mr. STEFFES. As a Caribbean Command, Key West is being disestablished? Isn't there some utility to the buildings that they are going to vacate?

General Cox. Having been down there fairly recently, the Caribbean Command is, as you know, quite small. I think their staff was less than 40 and the building is not even very near the water. It is as far away as you can get from the water in Key West. It is not on the water and it is not near the existing Army training facilities. It is not in an area where you could utilize it.

Mr. STEFFES. Thank you.

Mr. HUTTO. Thank you, Mr. Steffes.

Mr. Lancaster, do you have a final question?

Mr. LANCASTER. Yes. A couple if I have time; if not, I will——

Mr. HUTTO. OK. You do real well under the 5-minute rule. You have a new system. You take it in increments of five.

Mr. LANCASTER. I think we were going around for a second round.

Mr. HUTTO. Just kidding, just kidding. Go ahead.

Mr. Bilbray will follow you.

Mr. LANCASTER. OK.

General, in your statement you state that our SOF Air Force mission-capable rates of spares situation are currently satisfactory. Yet, in a recent exercise, I understand that in Europe only one of four helicopters was able to participate. Is this true, and if that is true, how can you say that your mission-capable rates of spares situation are currently satisfactory?

General Cox. I am not sure what exercise you are talking about so I can't talk specifically, but keep in mind that the mission-capable rates are not a snapshot in time. It is an accumulation. Usually you keep those kinds of rates over a month's period of time and then you aggregate them at the end of the year and you for example say my mission-capable rate is 63 percent for the MC-130s over 1988. So that accounts for all obvious peaks and valleys.

So if you look at it from an aggregated average, percentagewise, that is the case. You will have times when they go down and have to be fixed, obviously. There will be other times when they will fly 100 percent.

Our record, by the way—and I can provide this for the record later on—our record in exercises in those kinds of things always is better than how we fly at our home stations as far as being able to keep the airplanes flying and do the mission.

Mr. LANCASTER. One final question. General, in your statement, in stating your resources, interestingly enough, you indicate a need for a car telephone, and with all of the needs in the SOF, I wonder what elevated something that I would think you would be able to pay for out of petty cash up to the level that you had to bring it to Congress' attention?

General Cox. I must admit that I wasn't aware that we had car telephones in there, but I will sure provide an answer for the record.

[The following information was received for the record:]

My reference to the need for a car telephone was a statement of accomplishment concerning our continuing efforts to improve communications within the higher levels of USSOCOM command and control structure. It was not a request for funding. For reference, cellular phones are the means by which our command post maintains contact with USSOCOM general officers.

Mr. **Lancaster**. It is very interesting, I thought, that that had been elevated to that level.

General Cox. I find it interesting as well.

Mr. **Hutto**. Mr. Bilbray.

Mr. **Bilbray**. General, my question came as a result of Congressman Tanner's earlier question as to drug interdiction, and especially in South America. I served on the International Task Force in the Foreign Affairs Committee on Narcotics last session. The Drug Enforcement Agency people have repeated said two problems. They really feel that they get tremendous support from Special Forces and the people who are assigned into South America to work with them, but they never know for sure how long they will have these people. They are set for a certain period of time and they are not sure that they will get them reestablished.

The second area, which you brought up, was the fact that when they go into the field, DEA agents go with either the Peruvians and the Bolivians or the Ecuadorians or whoever they may be with at the time—out in the field. Most of the DEA agents are not qualified, like your people are, to be with those troops, even if they don't get involved in the actual attacks or the destruction of this seek-and-destroy of these narcotics installations.

They would really like to see a longer term commitment out of Special Forces in the drug program, and also to allow your people to go with the Peruvians and Ecuadorians, Bolivians, whoever they may be, to go into the field and to advise them, and to stay right with them during these search-and-destroy missions.

Do you have any comments on this? Is there a problem doing that in your mind?

General Cox. As far as we are concerned as a command, no, there isn't a problem. It is my understanding that it is a policy issue and that—also, in some cases, if it is other than narcotics, our ability to work with indigenous police forces is a question, also. If it involves narcotics, we can——

Mr. **Bilbray**. They train them and work with them. Then, when they go out—from what the DEA agents tell me—the people you have assigned would love to go with them. I mean, they are really into it. They would like to go out there, destroy these cocaine laboratories and so forth, but they are not allowed to. It is policy decision from State or from the White House or where?

General Cox. All I can say is that the policy decision does not rest at the level of the Special Operations Command, but we would have the capability and, as you say, our troops are eager to participate more fully on this. I can give you a better answer for the record.

Mr. BILBRAY. I would appreciate that.

[The following information was received for the record:]

1. The Department of State (DOS), Bureau of International Narcotics Matters (INM) is charged with developing and coordinating all U.S. Government (USG) international drug control activities. Responsibilities of INM include "providing assistance to help nations strengten their law enforcement and judicial systems.

2. The amendment to the *Posse Comitatus Act* (10 U.S.C. 374) enables U.S. military forces to participate in narcotics control operations overseas; therefore, military assets of the USG can be used to support law enforcement activities. In April 1986 President Reagan stated illicit narcotics constitute a national security threat, thereby enabling Department of Defense (DOD) personnel and resources to be used in the campaign against drugs. When invited by the host nation, the military can become an active participant; however, its support is limited to logistical and training support functions which must be coordinated with other USG agencies. Special Forces Mobile Training Teams (MTTs) are making notable progress training the military forces and national police of host countries to improve their basic military capabilities and paramilitary skills in combating illegal drugs.

3. All requests for military support to international counternarcotics initiatives require the approval and oversight by DOS prior to submission to DOD for approval. The Secretary of Defense cannot approve direct participation by military personnel in counternarcotics operations as a matter of course. Any such participation would require prior approval by the President, Secretary of State, the Attorney General and the host country for each occurrence, within applicable U.S. laws and statutes.

General Cox. It is not directly within our control, but I think I can give it to you for the record.

Mr. BILBRAY. Thank you.

Mr. HUTTO. Thank you, Mr. Bilbray.

General, we will have some questions to submit to you, if you would respond for the record.

We want to thank you for your testimony and your excellent responses to our questions. We appreciate the good work you are doing and it is good to see you again.

Thank you very much for being here.

General Cox. Thank you, Mr. Chairman. It is a pleasure to be here.

Mr. HUTTO. Now we will call our next witness, Maj. Gen. John R. Piatak, Director for Plans and Programs, of the Transportation Command. We are delighted to have General Piatak with us this afternoon.

General, whenever you are ready, you may present your statement.

STATEMENT OF MAJ. GEN. JOHN R. PIATAK, ARMY, J-5, TRANSPORTATION COMMAND

General PIATAK. Thank you, Mr. Chairman, and distinguished members of the subcommittee. I am delighted to be here today to talk to you about the newest unified command within the defense establishment, the United States Transportation Command.

In that this is our first appearance before your committee, I would like to take a few moments, if I may, to highlight some of the more significant elements that we have included in the prepared statement.

The organization was activated on the 1st of October of 1987 and on 1 October of 1988, General Cassidy, as CINCTRANS, assumed operational command of the forces of Military Airlift Command, Military Sealift Command, and the Military Traffic Management Command. It is an organization of about 107,000 people, and when mobilized, you can add an additional 70,000 from the Reserves and the National Guard.

A significant element of this command is its utter dependence upon the civil transportation sector. Seventy percent of the total global lift that we would require in wartime is in the civil sector. One-half of the airlift is in the Civil Reserve Air Fleet. Over 75 percent of the sealift is provided by our Merchant Marine and those of our allies and the civilian contribution or landlift is easily 80 percent. So it is a truly unusual organization, a total force of active duty, reserve and civilian components.

We can't talk about the readiness of this organization without examining the aviation, rail, truck and maritime industries. We are encouraged by the improving airline industries. We are extremely pleased with the management initiatives that we see in the major transportation companies of our nation.

Rail and truck capability is sufficient to meet our deployment needs. However, the declining maritime industry is our most pressing concern.

We are a functional command and not geographic. We provide support to all of the regional CINCs. Our method of maintaining our readiness is doing in peacetime precisely what we will do in wartime. In wartime only the pace will change.

So it is important to note that defense transportation dollars for moving people and things in peacetime, are providing the readiness oil of our wartime capability.

If I may, a bit about people. We have never seen a higher quality airman, soldier or seaman. Especially in our components, they are a high-quality force. We appreciate what you folks have done in keeping their morale high and we ask that you continue to support those morale and welfare items.

Our most critical personnel need is the problem of pilot retention. The fixed wing cumulative continuation rate for Military Airlift Command pilots dropped to 27 percent last year; and with a 30 percent growth of air carrier operations projected in the next decade, there will be an intensification of raids on that trained manpower pool.

It is a long-term problem that the Department of Defense is dealing with. However, the aviation continuation pay program will help and we urge your support.

My prepared statement adequately defines our components——

Mr. HUTTO. All right, sir, and your complete statement will be entered into the record.

General PIATAK. Thank you.

I would like to point out a few of our other concerns. Let's first, if we may, sir, talk about airlift. The congressionally mandated mobility study noted severe shortfalls in global transportation. It recommended airlift fleet increases and came up with a fiscally constrained Department of Defense goal of 66 million ton miles a day. At the end of fiscal year 1988, we had achieved 46 million ton miles, a 70 percent increase from fiscal year 1981.

The remainder of the effort toward 66 million ton miles is in the C-17. We urge your support for that airplane which will take us to 66 million ton miles.

The most serious threat that I have mentioned in our nation's deployment and transportation system is in the Merchant Marine. The pool of commercial merchant seamen has dwindled 60 percent since 1970 and we anticipate an additional 57 percent decline over the next decade. These are the people that we will require to assist us in the break-out of the Ready Reserve Force and the National Defense Reserve Force, and their pool is dwindling rapidly.

We describe the sealift element as critical and a weak link. The CMMS also identified a sealift shortfall and projected a 15 percent decline in available shipping. However, current projections indicate it will be closer to 45 percent.

If I may quote from the Commission on the Merchant Marine and Defense, they concluded a clear and growing danger to national security in the deteriorating condition of America's maritime industries. They projected a 290-ship shortfall by the year 2000 and a shortfall of trained seamen of 12,200.

Action must be taken to resolve this problem. Our approach is a national maritime policy and a senior interagency group to monitor progress in that area.

In the interim, the United States Navy and our component, Military Sealift Command, has provided what we would describe as a band-aid. They have purchased eight large containerships. They modified them for fast roll-on, roll-off, and they have come up with an implementation on the use of seasheds and flatracks, devices to gain greater capability out of the containership.

The Maritime Administration (MARAD) has programmed growth in the size of our Ready Reserve Force from 92 ships today to 142 ships by 1994. We are concerned, as I said, about the activation of those ships, not only from the Merchant Mariner point of view, but there has also been a significant decline in the number of companies operating in the shipbuilding and the ship repair industries. The most recent numbers that I have seen, 110 companies, at 112,000 people in 1982, and today they are down to about 65 organizations, only four or five of which have major capability, with a total of 75,000 people today.

So we solicit your support in attempting to turn that industry around. In the interim, we ask your assistance in ensuring that the MARAD budget, along with the Navy, allows us to continue the band-aid approach that we are using right now.

Last, I would mention our command and control master plan. It doesn't do us any good to be able to move men and materiel if we can't track the movement and inform those CINCs that need to know where their forces, where their division flags are. We have put together a master plan that takes advantage of existing systems and that will internet those systems to allow us to accomplish our objectives at the least possible cost.

As those command and control budget items approach you, we would ask your support there.

We are delighted to be here today to tell you about the Transportation Command, sir, and I will now answer any questions that you have.

PREPARED STATEMENT OF MAJ. GEN. JOHN R. PIATAK

Mr Chairman and distinguished members of the committee--I appreciate the opportunity to appear before you today to discuss the readiness and capability of the nation's newest unified command, the United States Transportation Command. A lesson learned several times in the history of our modern world, and in our own short history as a nation, is that no matter how much firepower we have, if we can't get supplies and troops to the right place, at the right time, we lose. Therein lies the mission of the US Transportation Command: to provide global air, land, and sea transportation to deploy, employ, and sustain US forces worldwide.

Today, the defense transportation system is absolutely essential to our nation's strategy of forward defense. Even as we observe and welcome the lessening of tensions between the United States and the Soviet Union, we do not foresee a major change in our national strategy and the large demands on transportation. In fact, any adjustment in US conventional forces overseas would only serve to increase demands on lift.

Since this is our first appearance before your committee, let me first describe our command and some factors that make us unique among unified commands. Although the idea of a unified transportation command dates back to Presidential Commission recommendations in 1949, the first truly unified command for transportation, USTRANSCOM, was activated on 1 October 1987. One year later, on 1 October 1988, General Cassidy, as USCINCTRANS, assumed operational command of component forces. Our three component commands are: Military Airlift Command (MAC), Military Sealift Command (MSC), and Military Traffic Management Command (MTMC).

MAC, the largest of the components, is responsible for all global airlift operations. MAC has close to 92,000 active duty military and civilian personnel. When fully mobilized, MAC would gain another 22,000 Air National Guard and 46,000 Air Force Reserve personnel. MSC provides common-user shipping for DOD and has 7000 active duty military and civilian personnel, as well as over 2,200 merchant mariners under contract in peacetime, for a total of over 9,000 personnel in peacetime. When fully mobilized, MSC would gain an additional 2,300 men and women from the units in the Reserve forces. MTMC manages all common-user water ports, intermodal movements, and CONUS land transportation. MTMC has 4,000 military and civilian personnel in peacetime and, when fully mobilized, would gain over 4,400 Army Reserve personnel. In total, USTRANSCOM has over 105,000 men and women during peacetime and, when fully mobilized, we would add approximately 70,000 from the Reserves and National Guard.

Certainly a key factor in USTRANSCOM's readiness is the total force concept. The total force concept for USTRANSCOM not only consists of the active duty and Reserve forces mentioned above, but also includes a great dependence on the civil sector for the largest portion of our wartime capability (Figure 1). We depend on the civil sector for over 70 percent of the nation's global lift capability in wartime. The US Civil Reserve Air Fleet (CRAF), comprised of civil air carriers, will provide about 50 percent (24 percent cargo, 95 percent passengers) of all airlift. The Merchant Marine will provide more than 75 percent of our sealift capability and the civilian transportation industry will provide close to 80 percent of the truck and rail requirements. The vitality of the civilian transportation industry is absolutely essential to meet strategic mobility requirements.

Currently it is also worthy to note that in addition to half of the wartime passenger and cargo airlift capability coming from the CRAF, over half of the remaining wartime airlift capability is provided by the Air Reserve Components (ARC). Only about 20 percent of our current wartime airlift capability is provided by active duty forces. The United States Transportation Command is truly a total force activity.

Because of our dependence on the civil sector, we can't talk about readiness without examining the state of the aviation, rail, truck, and maritime industries. We are encouraged by the thriving aviation and airline industries and by management initiatives like intermodalism and systems to positively control cargo which we see in all major transportation corporations. Likewise, we believe in general terms, that the US rail and truck capability is sufficient to meet mobility requirements. However, the declining maritime industry is one of our most pressing concerns.

In summary, there are several things unique about USTRANSCOM. First, we are a functional unified command, rather than a geographic command. We provide a vital service to all theaters. Second, we depend on the civil sector and Reserve forces for about 85 percent of our wartime capability, and thirdly,

our primary method of maintaining readiness is by doing in peacetime exactly what we will do in wartime. Only the pace of activity will change. There is a readiness aspect to every defense transportation dollar spent in peacetime.

Providing for the peacetime transportation needs of our worldwide theater commanders keeps the defense transportation system functional. Aircrews, merchant mariners, civilian-contracted rail and truck lines, maintenance personnel, and terminal operators all must be adequately exercised in peacetime if we logically expect them to surge to meet wartime needs. When defense transportation dollars are reduced, not only do we move less cargo and people, we also reduce the overall readiness of the defense transportation system.

Let me now discuss some of our major concerns and programs that directly impact the readiness and capability of USTRANSCOM.

PEOPLE

First, the need was never greater for high quality, motivated people--we have them now. I've never seen higher quality soldiers, airmen, and seamen than we have in our Armed Forces today. I am also constantly impressed by the motivation, loyalty and professionalism of the civil sector people on whom we depend. With today's state of technology, in which aircraft like the C-17 are designed for three crew members instead of six, and giant ships like the C-10 class container ships, which have the productive carrying capacity of 10 World War II cargo ships, are built for a crew of 12 instead of 35, we must maintain a high quality force. Top quality people are the foundation of our warfighting capability and readiness. How do we keep this quality force? We must provide recognition of their contributions and a compensation package which is competitive with the civilian marketplace--not just pay comparability, which is important in itself, but also we must continue to recognize their humanity by providing adequate health care, morale, welfare and recreation programs for our men and women in uniform and their families. All these are part of the readiness equation and the military way of life.

Our military men and women know and share concern for the fiscal problems our nation is facing. They have endured instability in force structure caused by manpower drawdowns which spawn feelings of insecurity and they've accepted and endured extensions of overseas duty and slower promotions in the interest of cost savings. In spite of that, enlisted retention is good. Your continued support of selected reenlistment bonuses for critical skills has been, and continues to be essential to this positive retention trend. Additionally, we must attempt to preserve the trust of our people that their pay and benefits will not be eroded.

The most critical military personnel problem we are facing which could definitely impact the readiness of our command is the decline in pilot retention--that situation is not good. During the past 10 years, MAC has seen the Cumulative Continuation Rate (CCR) for airlift pilots in the 6 to 11 year group drop to a low of 14 percent in 1979; rise to a high in 1983 of 79 percent; and then drop to 27 percent last year. The 30 percent growth rate of commercial air carrier operations projected between now and the end of the century will continue to create a lure for military pilots and may result in intensified raids on this trained pool of experienced labor. To fully qualify a C-141 aircraft commander represents an investment of $3.5 million. Last year, 114 C-141 pilots left the Service--that's a loss of close to $400 million. This is a long-term problem that must be turned around. The Aviation Continuation Pay (ACP) program approved by Congress last year is helping a little, but it is only a first step. The Department of Defense is committed to solving the problem--we urge you to support the current request for ACP funding and other initiatives which may come from DOD to help resolve the current and projected critical pilot retention problems.

THE TRIAD

To examine the capability of defense mobility we must consider a triad of transportation elements: airlift, sealift and landlift, as well as a non-transportation element, prepositioning. Each element of this equation is an indispensable part of the total mobility status of our force. If one element is weak, the others must pick up the slack if we are to be able to carry out our strategic goals, each leg of this triad must be strong. Each element of the triad has its own mutually exclusive characteristics. Airlift is rapid, responsive, and the most flexible, but can carry only a small portion of the total requirement. Sealift has the greatest total capability but is slower and not as flexible as airlift. Landlift optimizes the use of commercial capability to effectively move troops and materiel from current locations to ports of embarkation. All three elements at adequate capacity as well as approve prepositioning, are necessary to meet our global mobility objectives under existing fiscal constraints. These integrated transportation elements along with prepositioning need to be considered in order to determine the total mobility requirements. Today all of our supported CINC's major operations plans are transportation constrained with delays in early airlifted unit arrivals, and our sealift capability is based, in our view upon an overly optimistic assessment of the timely breakout of the reserve fleets. These airlift and sealift capabilities are specific concerns of USTRANSCOM and result in our capability to perform assigned missions being marginal at best.

AIRLIFT

To provide global airlift support to all regional unified commands, MAC's resources are committed to intertheater and theater airlift forces. Intertheater airlift provides the first deployment step, getting supplies and troops quickly to the theater of conflict. In our current force, the C-5, C-141, KC-10 and CRAF aircraft are normally associated with intertheater operations. Whether by airland or airdrop, theater airlift provides the mobility and supplies far inland to the fighting forces. These tactical airlift operations are normally associated with the C-130 aircraft. Our ability to perform both of these missions will be greatly improved with the addition of the C-17, with its intertheater, direct delivery, and intratheater lift capabilities. For rapid deployment, flexible response and timely movement, there is no substitute for airlift.

The Congressionally Mandated Mobility Study (CMMS), completed by OSD in 1981 took a comprehensive look at all aspects of the mobility triad; airlift, sealift and prepositioning. It noted shortfalls in all three elements of the triad and recommended strongly that the airlift fleet capability be increased by 20 million ton-miles/day (MTM/D) over the study baseline. From this study the fiscally constrained DOD goal of 66 MTM/D was established and continues to be the fiscally constrained goal we must pursue in peacetime, although the real requirement is probably in excess of that figure. This has been a coordinated goal of the Administration and Congress. We've made great progress toward achieving that goal since 1981. At that time, our total airlift capability was about 27 MTM/D. By end of FY89, we will have increased to 46 MTM/D capability, a 70 percent increase. Looking to the future, the linchpin for reaching the 66 MTM/D goal is the C-17.

The C-17 is a modern, low-risk aircraft that will allow us to deliver our fighting forces closer to the battlefield, faster and more efficiently than ever before. The support given by this committee and the Congress as a whole made 1988 a banner year for the C-17 program. The C-17 is currently under production at the world's most modern aircraft production facility, the Douglas Aircraft Company Plant at Long Beach, California. DOD gave final approval to low rate initial production last month and we are pressing ahead for an economical production rate of 29 aircraft per year by FY93.

We are pleased that this capability will finally be available to our supported CINCs. The C-17 is not only the best solution to meet airlift requirements of the warfighting CINCs, it is the only solution. It can project light and heavy combat units, including any outsize equipment the Services have. It can deliver these units directly to the forward battle area. It can swing from an intertheater airlift role to a theater role to employ and resupply theater forces. In the sustainment phase, the C-17 can move large quantities of munitions, fuel, and outsized cargo needed by highly mobile ground and aviation forces directly to forward areas. In addition, the C-17 will lower manpower requirements and decrease operational costs--it minimizes life cycle costs and provides the most affordable solution to the nation's airlift shortfall.

In the area of airlift we provide for Special Operation Forces (SOF), CINCTRANS exercises operational command of airlift assets to meet SOF airlift requirements of USSOCOM and the theater CINCs. This includes Special Operations Low-Level (SOLL), C-141s, and C-130s. We are committed to provide this support whenever and wherever it is required. Outside of the responsibility of USTRANSCOM, MAC has specific Service oriented responsibilities to organize, train, and equip the SOF in missions other than airlift. Those are missions involving helicopter operations, MC-130 Talons and AC-130 gunships.

To maintain the readiness of our airlift forces, we must exercise the total airlift system at an adequate level. This is accomplished by providing peacetime global airlift to our users in all theaters. In addition, we must have adequate support for spare parts. Excellent funding for spares in the early 1980s has placed us in a good readiness status at the present time. Replenishment spares funding for the future is cause for concern. Reduced funding levels in the last 3 years is already reflected in lower fill rates. To preclude further adverse impact on readiness and sustainability, we need your support to sustain at least what was requested in 1990 and maintain continued emphasis in this area in the outyears.

Airlift is vital to our nation in both peace and war and we need your continued support for modernization of airlift forces and to maintain the readiness of current forces.

SEALIFT

A serious threat to our ability to project and sustain our forces has been brought about by the erosion in our nation's commercial maritime industry. Approximately 75 percent of our sealift capability will have to come from the commercial sector. This number speaks only to bottoms, the number of which continues to shrink as our US flag national liner companies fold up their tents.

The warfighting impact is even more serious when one understands that the government owned Reserve ships are almost totally manned by commercial merchant seamen. Those seamen comprise a pool of seasoned sailors who now find their numbers have dwindled 60 percent since 1970, to a current level of 28,000, with a further decline to some 12,000 actively sailing projected in the next decade. Half of the current force is 50 years of age and fewer young people are comming forward to replace them, since there are fewer berths to which they can be assigned. Fewer ships and technical advances have caused this decline in employment. The impact of a reduced manpower pool will affect our ability to activate crews and the ships of the RRF.

The risk this situation presents to our readiness becomes apparent when viewed in the context of "forward defense"--the global military strategy of the United States. As I indicated earlier, implementation of this strategy is dependent upon the three transportation elements--airlift, sealift, landlift, and the mobility factor, prepositioning. We can assemble airlift within hours to rapidly deploy troops and high priority equipment and supplies, but the bulk of our ground combat power and sustaining supplies must be deployed by sea due to the volume alone. In Korea and Vietnam, this amounted to 97 percent of all war materiel moved. Admiral Crowe has stated, "In any major overseas deployment, sealift will deliver about 95 percent of all dry cargo and 99 percent of all petroleum products." Therefore a successful strategy is dependent upon equally strong legs of this transportation triad. For reasons already mentioned, sealift is a critical but currently weak link.

To fully understand the impact of the deteriorating merchant marine on our warfighting capability, an explanation of the strategic sealift mission is necessary. It divides easily in two categories: (1) surge shipping after initial mobilization and (2) resupply shipping to sustain our forces in the forward combat theater. Surge shipping needs to be capable of handling outsized, bulky military unit equipment, while resupply shipping carries mostly easily containerized supplies to meet daily consumption, and build reserve stocks. Currently some containerized shipping is needed early on (even in the surge phase) because of shortfalls in prepositioning, the non-transportation factor in the mobility equation. This divergence in the type ship requirements exacerbates our sealift problem because not only have the number of bottoms declined as I stated earlier, this decline has been concentrated in unit equipment capable ships. This sitation was created by economics dictating a shift toward larger, non-self-sustaining container ships. Earlier I also mentioned the Congressionally Mandated Mobility Study as having established a fiscally constrained goal for airlift, it also identified a sealift shortfall. At the time it was conducted that study projected a 15 percent decline in available shipping, current projections indicate the decline will be more along the lines of 45 percent. Various committees and studies, including the Commission on Merchant Marine and Defense study clearly indicate that, as concluded in the study by the Commission on Merchant Marine and Defense, the United States faces a "clear and growing danger to national security in the deteriorating condition of America's maritime industries." Even considering all the current US Flag commercial fleet, the Military Sealift Command Fleet, the Ready Reserve Force as well as the effective US controlled fleet and the allied committed shipping, the commission projects a 290 ship shortfall by the year 2000. They also project a shortage of 12,200 merchant seamen during mobilization to man all of the strategic sealift and economic shipping that would be required during war. Every study or assessment indicates we are heading in the wrong direction with our sealift capability. Action must be taken to deal with this erosion of our strategic sealift capability.

The Military Sealift Command has made a great deal of progress during this period of industry decline in augmenting and developing their capability to try to offset, as much as fiscally possible, the commercial maritime industry decline. Significant resources have been devoted to expansion of the RRF, purchase of 8 large container ships and their modification to fast Roll-on/Roll-off sealift ships, and implementation of the seashed and flatrack program to make container ships more useful are notable examples.

The RRF provides a significant portion of the surge shipping capability that would be required on short notice to support the deployment of US forces. A gradual growth in the overall size of this fleet is planned for subsequent years, to reach 142 ships by 1994. In the interest of readiness, these ships are periodically activated to determine the effectiveness of lay-up maintenance and activation procedures. Activations are both no-notice and advance-notice. Often these activated ships perform sea trials or are used in DOD exercises. 43 activations (21 of which were no-notice) have been conducted since 1977 with 2 failing to meet the time standards established. These activations are important in determining readiness posture and exercising breakout procedures. MARAD is currently assessing the current readiness status of the RRF under a simultaneous fleetwide activation scenario and they have found that the five day readiness goal needs to be reviewed in light of the increased numbers of RRF ships and the shrinking maritime industrial base.

The budgeting and administrative responsibility for the RRF belong to the Department of Transportation's Maritime Administration, MARAD. In their FY90 budget, they have identified increased RRF funding of over 100 million for additional spares, no notice activation, ship refurbishments, and acquisitions. These funding increases have the potential to enhance the readiness of this extremely important asset to our wartime capabilities.

Another important enhancement to the RRF is the addition of the Auxiliary Crane Ships, intended to improve our off-load capability at unimproved port facilities and in over the shore operations. Seven of the planned twelve ships are complete and part of the RRF, one more is scheduled for delivery this spring, and contracts for ships 9 and 10 conversions are in final negotiations. Funding for ships 11 and 12 are in MARAD's FY90 budget.

These and other important efforts to strengthen our national sealift force can only slow the bleeding. I solicit your support in a concerted effort to restore health to our nations maritime industry as the most economical way to insure USTRANSCOM's ability to more effectively and efficiently accomplish our mission. Former Secretary of Defense Carlucci said, in a recent statement before leaving office, "The problem is beyond the ability of the DOD to resolve and clearly requires the cooperation and attention of all appropriate government agencies." This problem requires national resolve, and a concerted effort by Congress, the Administration, and the Maritime industry itself if we are to make significant improvements in our sealift capability and readiness.

A first positive step in this direction would be adoption of a national sealift policy. We've made significant progress in airlift capability, in part because a national airlift policy was adopted. We stated a policy up-front for everyone to see and work toward. I believe similar positive results are to be gained if a national sealift policy were adopted.

Until the time when serious inroads are made into reversing the negative trends in our maritime industry, I solicit your continued endorsement of those sealift programs already underway.

Our charter also gave us a mission to move information. Our command and control systems and the capabilities and readiness associated therewith are also important to our overall capability and readiness.

COMMAND AND CONTROL SYSTEMS

One of the primary operational task of the US Transportation Command is to integrate the operational planning and execution of air, land, and sea transportation to meet global transportation requirements. The key to the accomplishment of that charter is proper command, control, communications, and computer systems.

Since the commercial transportation industry provides 70 percent of our wartime capability--we must be able to capitalize on progress made in those industries and integrate it with the military transportation systems.

Our Command and Control Master Plan has identified an extensive baseline of support systems in airlift, sealift, water terminals and rail and trucking systems, all providing support to echelons of users. Our job is to build a network of these systems known as the "global transportation network." This will allow any user of transportation to access needed transportation information from any other user's system of data bases.

This integrated global transportation network is long overdue, and combined with a modern operational planning and execution system, it will provide the defense transportation community with a single, interoperable, user oriented command and control capability. Your continued support for our command, control, communication and computer systems essential to accomplish our charter, is appreciated and will facilitate timely activation, thus significantly improving our capability for mission accomplishment.

CONCLUSION

Mr Chairman, thank you again for the opportunity to discuss the mission, readiness, and capability issues of the United States Transportation Command. We will continue to advocate a total defense transportation system and a global transportation network which meets the needs of theater commanders worldwide. We are still new, our plate is full, and the challenges are many. With your continued support, we believe we will meet these challenges and provide for the total integration of air, land, and sea transportation assets. With such cooperation we can progress from our current marginal ability to accomplish capability constrained transportation missions which add risk to every situation, to a command with adequate Command and Control communications and computer systems and transportation modal capability to effectively and efficiently support our national objectives.

Mr. HUTTO. Thank you very much, General Piatak.

Because he has to leave early, I am going to yield first to Mr. Kasich.

Mr. KASICH. Thank you, Mr. Chairman. I have to go to the Budget Committee so I have to run on over there real quick.

General, I know I put you in a difficult position by asking you this question. You know about our hearing yesterday with Mr. Vander Schaaf, where he talked about this whole operation of yours and in reading some of the background material, you had the Transportation Command, but we have, along with the Transportation Command, the Military Traffic Management Command, the Military Sealift Command, the Military Airlift Command and, of course, their headquarters and their staffs.

Now, my understanding is that early on, and I understand their independence. They always act this way, even to the point where it drives me crazy. The Navy didn't want to become part of the overall Transportation Command. They said that their sealift capability was unique, therefore, they ought to have their own operation.

Then the Army comes out and they say, they ought to have their own operation. It got so bad in the inability of the Army and the Navy to work together with the Transportation Command—that we formed the Joint Deployment Agency.

Because we couldn't get the Army and the Navy to work with one central command, the problems became so serious we had to form the Joint Deployment Agency to try to coordinate their working together.

Now, there is one thing that the armed services have been talking about over the last few years and that is the fact that we are all tired of everybody having to have their own systems, that everybody always argues that their situation is unique; therefore, they ought to have their own weapons system, their own plan, their own program, and we don't have the dollars for that.

I want your reaction to the idea that we should disestablish these three commands—the Sealift and the Airlift Commands and the Traffic Command—and give you another star, give you two more stars, and let you run the whole kit and kaboodle, allow them to maintain some degree of their own integrity, but make those folks your deputies and put all this thing together.

General PIATAK. If I may, sir, to begin with, the creation of the Joint Deployment Agency was a fallout of the exercise Nifty Nugget, and it was the first attempt by—I would say, by my knowledge, the first attempt to go ahead and put those three elements together with an agency that could coordinate deployments.

Unfortunately, the Joint Deployment Agency was not given what I would describe the requisite authority with the responsibility. A dual-hatted four-star CINC from Readiness Command had coordinating capability, but he couldn't direct. So as a result of that, and the result of trying to work that for 4 or 5 years, the idea of a United States Transportation Command was again brought up.

There were, to my recollection, some service objections to that, but I can tell you at the present time all of the services are strongly in our corner. We have had tremendous support in all arenas, from the budget and from every other source. We had the opportunity to talk to the Vander Schaaf group only shortly after our activation.

As a matter of fact, I think when we did, we had less than 50 people onboard. We had 1 hour with them and each of our components had about 30 minutes. As a result, we perhaps did not demonstrate the need that we have for a Transportation Command of a unified nature, as opposed to a centralized command, of which they speak.

We feel the need for those component staffs. They work the "organize, train, and equip" service types of problems, and we sense that any elimination of them in a large part or totally would put us in a position where we would end up focusing on peacetime matters when a unified commander ought to be focused on wartime matters.

For example, if I may, the Military Traffic Management Command operates for the entire Department of Defense the movement of soldiers' and sailors' and airmen's household goods around the world, a very large dollar item, with many, many problems, and we don't think that CINCTRANS ought to be concerned with that. So the services have other functions that those components do and we think that the current system is best, sir.

Mr. KASICH. Let me go back. I am glad you brought me up to speed on the evolution of this. The reason, then, why you were created is because the Joint Deployment Agency, which was designed to force coordination with these particular individual operating commands, didn't work.

So they solved the problem finally with you. The problem with the Joint Deployment Agency is while you could organize, you couldn't direct. Now, with you, you not only can organize, but you can also direct. So that was an evolution to solve the problem created by the fact that each of these services begged off on their own uniqueness.

What I fail to understand is why you—I don't know whether it makes sense what you say about the Traffic Management Command, but I know that the Navy and the Army objected to being unified from the beginning and, as a result of their objection, your organization was created.

Now that your organization is created, I want to eliminate the bureaucracy associated with those organizations that forced you to be created to begin with. I think you ought to have a deputy. I mean, you ought to have some structure that recognizes the uniqueness of their programs. But to have a separate division and a separate command and then put you in charge to make sure we can coordinate those people seems duplicative to me and unnecessary.

I think you can maintain their uniqueness within your shop and save those staff positions in a time when the military budget is really under fire.

General PIATAK. When they created a unified command, sir, I would suggest that they realized at that moment that they were going to create it in the unified command mode. All unified commanders have service components and those responsibilities are common throughout. So we are not duplicating anything those three components do. We are similar to USSOCOM and USPA-

COM. We are zeroing in on those areas on the margin that need to be worked harder. But when they created the command, there was no indication, to my knowledge, that anybody thought of the three components were broken.

We weren't designed to do what they are doing in peacetime. We were designed to work the margins, get them working together better and provide a greater deploying capability.

Mr. **Kasich**. Mr. Chairman, I appreciate the time and the final question is, these—the Sealift Command and the Transportation Command—have duplicative offices, I am told by staff, in many port and terminal cities throughout the world. Those offices have not been consolidated, but the bottom line is you ought to be an expert for transportation for all of the services. I don't think that each of the services ought to be their own expert in transportation. I think you ought to be the expert in overall transportation and let them have deputies under you who give you their expertise and the history of this is that the only reason why it was not centralized the first time around is because, unique to these services, they were able to carve out their own little niche.

I have to have a better reason as to why you shouldn't get that third star and head them up completely. But I appreciate the General's answers.

General **Piatak**. Thank you very much.

Mr. **Hutto**. Thank you, Mr. Kasich.

Do you have any response to his last suggestion?

General **Piatak**. I would just suggest that General Cassidy, the one that wears four stars, and not myself, is the commander and he is the single Department of Defense transportation expert and the three people that you have described as perhaps deputies, as his component commanders, fulfill just that function.

He has the overall responsibility.

Mr. **Kasich**. With the attendant staff and all the bureaucracies that go with those individual commands that they don't need in a time of a budget crunch, they ought to be working right for that four-star general with limited staff, limited operations and limited office space. They don't all need to have their own bureaucracy over there to do their job. That is my objection.

General **Piatak**. I can suggest to you, sir, that the creation of the Transportation Command was almost done on the cheap. The headquarters that General Cassidy heads has a total of 400 additional people. He has already dual-hatted some of the people from Military Airlift Command to his staff to take advantage of economies that would accrue the way you are describing.

Mr. **Hutto**. OK. Thank you, Mr. Kasich.

Mr. Lancaster.

Mr. **Lancaster**. General, you discussed in your statement and also in what you said here today the problem of pilot retention on readiness and you note the cost, $3.5 million, to qualify C-141 aircraft commanders, and you support increased spending initiatives to solve this problem of the number of pilots who are leaving every year to go to civilian airlines.

You also talk about the reliance on the Civil Reserve Air Fleet—are we awarding contracts to firms who then go out and recruit our pilots to fly the reserve planes which are carrying paying passengers every day?

General **Piatak**. Mr. Lancaster, I can't give you an answer and assurance, but I can generally indicate that there are pilots that wore a uniform 2 years ago flying for airlines today that probably have contracts under the CRAF Program.

But now, may I also indicate that we track those very, very closely and those that have gone into the reserve components—there is an arrangement whereby we know that somebody who is going to come on active duty in mobilization and fly a 141 or C–5, that that organization, that civilian organization he works for is not counting on him to fly a DC–10 or a 747.

Mr. **Lancaster**. That is a good point to be raised. How do you guarantee that when so many of the civilian airline pilots are reserve pilots?

General **Piatak**. I cannot—I can only tell you that there is a system there. That particular system is worked by Military Airlift Command and to describe it in detail, I would like to provide that answer for the record because I don't have that data with me.

Mr. **Lancaster**. When you do that, if you would also indicate the number of pilots that are leaving active duty here and going to work for contract carriers.

General **Piatak**. I will do that, sir.

[The following information was received for the record:]

Question. You also talk about the reliance on the Civil Reserve Air Fleet—are we awarding contracts to firms who then go out and recruit our pilots to fly the reserve planes which are carrying paying passengers ever day?

Answer. Peacetime contract business award is based on capability committed to the CRAF. This is a relatively minor portion of the carriers' total business. Every major carrier does recruit ex-military pilots and every major carrier contributes some capability to the CRAF. However, there is no incentive provided nor penalty imposed based on a carriers pilot recruiting practices.

Question. That (double counting of pilots) is a good point to be raised, how do you guarantee that (the civilian organization the pilot works for isn't also counting on him to fly for the CRAF) when so many of the civilian airline pilots are reserve pilots?

Answer. Contracts signed by the carrier require a four to one crew ratio for each aircraft committed to the CRAF and prohibit the carrier from satisfying this requirement with any crewmembers who have a Reserve or Guard commitment. Airlines generally have high crew ratios for their entire fleet providing a more than adequate capability to meet their CRAF commitment. This element has been audited periodically and continues to reveal no significant problems. A recently completed Air Force Audit Agency audit again reveals no problem for carriers in meeting crew requirements. The current audit is also providing a foundation whereby a similar audit can be accomplished on an annual basis.

Question. When you do that (provide the answer to the double counting of pilots), if you would also indicate the number of pilots that are leaving active duty here and going to work for contract carriers.

Answer. Again, essentially all major carriers hire ex-military pilots and all carriers share in peacetime business. Several studies have been and are being conducted to source the problem of pilot retention. However, there is no specific data base maintained on an individual pilots career once he exists the military.

The airlines do not keep track of previous employment of their pilots. According to Future Aviation Professionals of America, however, 42 percent of the 6,800 pilots hired in 1988 had a military background. MAC conducted a survey of the 469 pilots who separated in 1988 and 78 percent said they were hired or seeking airline jobs. However, we have no statistics on how many were actually hired or which airlines hired them.

Mr. **Lancaster**. How much do we pay these Civil Reserve Air Fleet contractors and what are we getting for that during peacetime? Anything? Or is it just purely that we are just paying them to be on standby for some emergency?

General **Piatak**. Sir, by being members of the Civil Reserve Air Fleet, the members have a greater probability of receiving contracts during peacetime. On any given day when you look at the operations schedule for the Military Airlift Command, you will see eight or nine of those aircraft flying the system worldwide.

Now, many of these airlines have offered up their aircraft to have certain improvements made. Now, I describe improvements as military improvements; floor-hardening, doors that will open and take military cargo. We pay those airlines to have that done and then we go ahead and compensate them for the additional fuel inefficiency associated with that additional weight that they are carrying as they go about their normal civilian business.

Mr. **Lancaster**. If it is just a normal aircraft, either passenger or cargo service, do we pay them anything of sort of annual contract?

General **Piatak**. Sir, I don't believe so. I will verify that and give it to you for the record.

[The following information was received for the record:]

Question. (Do we pay CRAF carriers?) If it is just a normal aircraft, either passenger or cargo service, do we pay them anything of sort of annual contract?

Answer. There is no fee paid to civil airlines in exchange for CRAF membership. We merely show preference for distribution of peacetime business as incentive for CRAF participation; this business is the type we would have civil carriers do anyway even if there was no CRAF.

Mr. **Lancaster**. You indicated that they have some sort of advantage on the contracts they get for charters for either cargo or passengers. If they have an advantage, why aren't they paying us instead of vice versa?

General **Piatak**. What I am saying is, if we have to let a contract for some lift and we have a choice between one airline that is providing his aircraft into the CRAF program and one that is not, we are going to select the one that is in the CRAF, because in exercising his air frames, we are exercising our own readiness.

Mr. **Lancaster**. Getting back to the topic that Mr. Kasich and you discussed—that is, the problems of MAC and Military Sealift Command, whose responsibility is it to solve the problems of these separate commands? Is that their responsibility and then they report to you or is that your responsibility? Do you solve the problems and it goes down or do they solve the problems and report to you?

General **Piatak**. Mr. Lancaster, I guess I would have to hypothesize somewhat on what the problem was. If, in fact, one of our component commands takes an action in peacetime that we can visualize clearly will have an impact on the readiness of the overall transportation capability in wartime, we would notify them to make a change.

By and large, the three components, Airlift Command, Sealift Command and Military Traffic Management Command, work their peacetime operation in the way that they did in the past. They are linked into us for wartime planning and wartime traffic management.

They are then, I would say, generally autonomous in their peacetime responsibilities.

Mr. LANCASTER. How many people are in your headquarters?

General PIATAK. Sir, as of right now, as of today, about 370. The authorized strength is about 400, with an additional 150 people that wear two hats. They work for Military Airlift Command and they work for us; a considerable manpower savings.

For example, the intelligence function in Military Airlift Command can easily provide USTRANSCOM intelligence information. So we have made tremendous economies right there.

Mr. LANCASTER. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Lancaster.

Mr. Ray.

Mr. RAY. General, it is good to have you here today.

General PIATAK. Thank you.

Mr. RAY. I have enjoyed your testimony.

Following up on the conversation that Mr. Lancaster had with you regarding pilot retention——

General PIATAK. Yes, sir.

Mr. RAY. Do we pay C–141 pilots or MAC pilots a bonus to reenlist?

General PIATAK. Yes, we do.

Mr. RAY. As we do in the TAC?

General PIATAK. Yes, we do.

Mr. RAY. Same amount?

General PIATAK. The exact amount, sir, I don't have with me, but I would presume it is comparable. I can give you that data.

Mr. RAY. But we don't give them another jacket.

General PIATAK. Yes, sir, we do.

Mr. RAY. You do?

General PIATAK. Yes, sir, we do.

Mr. RAY. OK. I didn't know we went that far.

The CRAF problem that we had in the past, I guess in 1986, we didn't renew some of the contracts—Flying Tigers are not with us—and it upset those fellows pretty much, and this might have already been discussed earlier but they were threatening not to be involved in the program.

What is the status of that now? Have we resolved that?

General PIATAK. Sir, I would have to suggest to you that you just hit upon one of the areas where Military Airlift Command operates that contract unilaterally and that information is not available to, nor do we suggest even needed by U.S. Transportation Command.

Mr. RAY. I see. So you don't have anything to do——

General PIATAK. No, sir, I do not.

Mr. RAY. I assume you are saying you don't want anything to do with it.

General PIATAK. I am saying that if, in fact, the results of their negotiations became critical from a readiness perspective of our deployment capability, we would become involved.

Mr. RAY. Thank you.

Following up on Mr. Kasich's conversation with you about Mr. Vander Schaaf's report to this Congress, specifically he said to unify the Military Traffic Management Command with the Transportation Command and the Military Sealift Command with the Transportation Command and to unify the Military Airlift Command, we would save 1015 slots.

In that report, did your organization take a look at it? Did it reduce any of those slots anyway, or not?

General **Piatak**. Sir, we examined that report extensively, and we do not feel there would be anywhere near, if any, savings. Our CINC is on record as indicating that he does not think that the proposal by that study is a workable solution to solve the transportation problems of our nation. It is a centralized command and, as you examine the industry today—if I could take—and I will not mention names, but any major transportation conglomerate and as you look at how they do business, they have decentralized capability at the modal level. So there will be a transportation corporation with a sealift capability, one that operates rail, one that operates trucks and it is not centralized at the top. It is unified and they function through those regional vice presidents. That is really what we have created.

Mr. **Ray**. Of course, you know what the fiscal problems are.

General **Piatak**. I understand.

Mr. **Ray**. We are looking at a frozen military budget for a decade plus just inflation.

General **Piatak**. Yes, sir.

Mr. **Ray**. There are going to be a lot of short dollars. So if the short dollars came to your shop, you wouldn't do anything with these anyway. You would have to find some way else to address that problem.

General **Piatak**. Sir, we are on record as indicating that we would not solve a financial problem via that method.

Mr. **Ray**. OK, fine. Thank you.

Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Ray.

General Piatak, you mentioned in your prepared testimony that a first positive step toward improving our sealift capability in readiness would be the adoption of a national sealift policy. It was reported last week that DOD has drafted and forwarded to the National Security Council a proposed policy statement that sets forth the goals for defense sealift and suggests how to accomplish them.

What additional procedures need to be accomplished before this policy is finalized and could you summarize for us the major points included in this proposed polic?.

General **Piatak**. Sir, we participated in the preparation of that policy with OSD and were part of Secretary Carlucci's forwarding that over to the National Security Council. The basic thrust of that policy is that we have an industry that is operating on rules that were established over 50 years ago.

As a result of that, that industry is carrying only 4 percent of our U.S./foreign oceanborne trade. We need to take national actions with an interagency group, chaired at the NSC, that will provide a focus on the solutions to that problem. I am sure your committee is aware of the fractious nature of that industry with the unions and with the liner operators and with the shipbuilders. They all need to be brought in around the table and we have to find a method to move from 4 percent of oceanborne trade to 6 percent to 8 percent so that we are able to get our military sealift capability out of a healthy Merchant Marine, as opposed to spending great amounts of taxpayer dollars and buying ships and laying them up waiting for a mobilization.

So the thrust is an interagency group that would involve all those people within the administration. It is certainly not just a Department of Defense problem; it requires a Department of Transportation effort and a Department of Commerce effort as well; along with great effort from the maritime industry. So the idea would be to focus a published policy and then follow-up with a series of fixes within each individual element of the industry.

Mr. HUTTO. A military readiness exercise referred to as Nifty Nugget—and I think you made reference to that earlier—was conducted in 1978 and it exposed many problems in our transportation systems. I understand that a similar exercise will be conducted this fall.

Could you highlight some of the weaknesses exposed by Nifty Nugget? I think you touched on that earlier. Do you expect that most of the problems that surfaced during the 1978 exercise will not be repeated this fall?

General PIATAK. Sir, our CINC examined Nifty Nugget '78, and indicated that it is the proximate cause for the creation of our command, as I hope I explained for Mr. Kasich. We specifically requested that, almost concurrent with the activation of this new command, that a Nifty Nugget II be conducted and, unfortunately, they are not going to call it Nifty Nugget II; it is Proud Eagle '90.

Mr. HUTTO. It is what?

General PIATAK. Proud Eagle '90. But Proud Eagle '90 will be used by U.S. Transportation Command as the baseline for the command. From it, we will start to seek our improvements.

To suggest that there will not be some duplication of lessons learned, I am not going to say that in front of you, sir. There may be some instances that occurred in 1978 that will recur, but what we are looking for is to see across the mobilization and deployment process what particular fixes we, as Transportation Command, are going to have to make as a result of that exercise.

Mr. HUTTO. In testimony before a Senate subcommittee last fall, General Cassidy, the TRANSCOM commander, recommended three goals for improving the nation's strategic sealift. One was doubling the U.S. flagship line's share of the nation's foreign trade from four to eight and, two, boosting the present fast sealift fleet from eight to 12 vessels and developing a fast sealift ship called a surface effect ship.

You covered this a little earlier, but my question is, is funding provided to implement all or part of these goals in the fiscal year 1990-1991 budget?

General PIATAK. Sir, the short answer is no, sir, it is not, but if I may speak to each of those individually. First of all, the movement from 4- to 8 percent of the lift is certainly not something that the Department of Defense ought to fund. That is a national effort.

General Cassidy mentioned the option of moving from eight fast sealift ships, those that travel about 30 knots, to 12, ships. Congress has directed the Department of the Navy to perform a study on fast sealift to include surface effect fast sealift ships. That study has been completed and is in the Secretariat at the Navy right now and will be provided to Congress when released.

Depending upon the results of that study and the decision made at OSD, we would likely then see some activity in either the addition of fast sealift or surface effect fast sealift.

Mr. HUTTO. OK.

How much impact will possible negotiated conventional force withdrawals from Europe have on future airlift needs? Is the need for increased airlift a big consideration in preparing for such discussions?

General PIATAK. Sir, if a decision is made to move forces back to the United States, the need for airlift and the need for lift generally will be significantly increased. The goals that we have now in airlift and in sealift are based upon the strategy that existed during the CMMS development.

If we, in fact, move a greater number of forces back, the surge requirements and the quick ability to move forces to an overseas theater are going to be significantly increased. So the goals that we have now, I would say, are modest in comparison to what they would have to be should that decision be made, sir.

Mr. HUTTO. All right.

Mr. Waters would you like to follow up on that?

Mr. WATERS. Just one question, General. I think it touches on something we were just discussing.

In your statement, you talk about the 66 million ton miles per day for strategic airlift. Last week, General Cassidy was quoted as talking about the need for 120 to 125 million tons per day of strategic lift. What is General Cassidy basing his requirement on versus what you are talking about here today?

General PIATAK. Sir, I do not want to leave the committee with the indication that the requirement for airlift is 66 million ton miles. The CMMS developed a requirement that is much larger than that, perhaps double, but it was fiscally an impossibility. So the 66 million ton miles was determined to be a fiscally constrained goal that we could approach. It put a mark on the wall for us to shoot for.

So when General Cassidy talks above that, he is talking about the actual requirement that came from CMMS and the 66 million ton miles is the fiscally constrained goal.

We are currently, in OSD, working another study called RIMS, the Revised Intertheater Mobility Study. We are hopeful to have that study we are participating in released; and if that study is released within the next month or two, there will be a modification to those requirements and we think that they will also support our case.

Mr. WATERS. OK. One final question, sir.

I am not sure it wasn't covered earlier, but in the time of mobilization, CRAF will provide 24 percent of the cargo and 95 percent of the passenger airlift. Are the communications equipment on these civil aircraft compatible with military command and communications systems?

General PIATAK. Sir, I am going to have to provide the answer for that for the record. I don't know.

Mr. WATERS. OK, thank you, sir.

Thank you, Mr. Chairman.

[The following information was received for the record:]

Question. Are the communications equipment on these civil aircraft compatible with military command and communication systems?

Answer. All civil aircraft have VHF and HF radios which are compatible with major military command and control agencies. There is an active program working to further enhance communication by providing secure air to ground capability. This, combined with IFF transponder development, will enhance CRAF interoperability in time of crisis or war. A bill introduced by Senator Stevens to expand the scope of the CRAF, S. 548, includes provisions to implement both of these programs, and we strongly support this initiative.

Mr. HUTTO. That would be a very important consideration. Thank you.

General, we do want to thank you for your excellent testimony in response to our questions and we will have some more to present to you for the record, if you would respond as soon as possible.

General PIATAK. I certainly will, sir. It has been my pleasure.

[The following questions were submitted to be answered for the record:]

QUESTION: At the request of the Secretary of Defense, Derek Vander Schaaf, the Deputy DOD Inspector general, Reviewed staffing at the Joint Command. The study team recommended to the Secretary of Defense that the Transportation Command and it's component commands -- the Military Airlift Command, the Military Traffic Management Command and the Military Sealift Command -- be consolidated. This past Tuesday an OSD witness stated that this was similar to a recommendation made by DOD in 1982.

How many spaces did the Vander Schaaf Study estimate would be eliminated under such a consolidation? Would you please explain the TRANSCOM position in regard to this consolidation?

ANSWER: The Vander Schaaf Study estimates 1,015 billets could be eliminated under such a consolidation. The USTRANSCOM position on the centralization is that the DOD IG proposed structure would hamper rather than facilitate the mission effectiveness of the command. The mission, organization, and structure of the command were the result of many years of study and debate and significant demonstrated failures in our ability to mobilize to go to war in a single unified effort. USTRANSCOM was not formed because of the failures or weakness of its individual components but to optimize their strengths and provide wartime traffic management and deployment execution. The DOD IG proposed structure is better characterized as a highly centralized command vice a -truly Unified Command.-

The centralization of headquarters and command elements would cause the USTRANSCOM staff to spend an inordinate amount of time managing day-to-day peacetime operations and require more manpower, not less. This will cause USTRANSCOM to get involved in service administrative areas, cause its components to lose their vital service link, possibly lose their service advocacy if removed from the resource allocation process due to less direct involvement in key transportation research and development and procurement actions. The addition of the component commands peacetime responsibilities to the USTRANSCOM charter would create a great potential to divert the attention of the unified commander from his primary war-fighting mission.

QUESTION: Two of your component commands -- the Military Traffic Management Command and Military Sealift Command -- both have offices in many port and terminal cities throughout the world. Why can't these offices be consolidated?

ANSWER: While it is true that MTMC and MSC both have offices in ports and terminals throughout the world, simple consolidation without regard to missions, roles, functions, and responsibilities cannot occur merely to reduce authorizations. MTMC and MSC offices around the world perform complementary but distinctly different functions. MTMC performs functions for Army assets, and MSC performs functions for Navy assets, which do not fall under the purview of USTRANSCOM. For example, in Pusan, Korea the MSC office performs functions normally associated with a Naval Station. To economize, the Army requested MSC to perform this role. The DOD IG report not only proposes consolidation, but also proposes a direct chain of command relationship from these offices to USTRANSCOM. Even if the service unique functions were removed, this direct chain would unnecessarily burden the unified commander with the peacetime management and administration of numerous subordinate elements, and detract from the unified commanders primary mission. -

QUESTION: During the hearing this morning, the witnesses from both the European and Pacific Commands pointed out the significant shortfall in strategic airlift and sealift.

I am sure the Transportation Command is aware of these requirements and am wondering if contingency plans have been developed since the existing shortfalls will not be satisfied for many years?

ANSWER: Today's contingency plans account for current shortfalls in strategic lift. The process of Joint Operational Planning considers many factors, including strategic lift capability, to determine the best means of performing the required military mission. Today's forces, equipment, supplies, and available strategic movement capability are apportioned to various CINCs for planning based on strategic policy guidance. Combatant commanders devise war plans using current capabilities, (ie., force and support structures funded by Congress in the current budget cycle) to meet the threat. This procedure ensures the National Command Structure has a clear picture of our actual capability to deploy forces and resupply to the warfighting CINCs during a global war.

MTMC has no active duty missions planned for transfer to the Reserve/Guard in 1990-1991, all MTMC forces are in Reserve Components now except for active terminals.

MSC does not plan to transfer any additional active duty missions to the Reserves in fiscal year 1990-1991.

QUESTION: You make the point in your formal statement that TRANSCOM is a total force activity. When fully mobilized TRANSCOM would add approximately 70,000 reserves and guardsmen to the peacetime force of 105,000.

Is TRANSCOM confident that these Reserve and National Guard assets would be available if needed short of total mobilization?

ANSWER: Yes, we are confident that the Reserve and National Guard forces available to the USTRANSCOM components will be available if needed. The Selective Reserve Call-up allows the President to augment the active force with up to 200,000 reservists and guardsmen as an interim step to full mobilization.

MTMC will receive the necessary trained units (up to 26 units and 2,000 spaces), as they are scheduled in the 200K callup. All CAPSTONE units (Reserve Component units directly assigned to Active Duty units for wartime planning) in recent years have been maintained at nearly 100 percent strength and are highly trained and ready to perform their mobilization missions. In addition, during full mobilization, MTMC will receive 2,000 plus personnel to be incrementally integrated between mobilization and M+90. However, these personnel are not as assured as Reserve Component units.

MAC can currently generate approximately 25 million ton-miles-per-day (MTM/D) of strategic airlift with active duty forces. That equates to about 60 percent of our full wartime capability. To establish a fully surged strategic airlift system requires 25,000 reservists and guardsmen, as well as Civil Reserve Air Fleet assets. All of MACs augmentee needs would be met during the 200K call-up. MAC depends on peacetime support from the Guard and Reserve to satisfy it's day to day missions. These are, of course, on a scheduled basis. Nonscheduled, nonmobilized contingencies, such as URGENT FURY in Grenada, produced a greater number of Guard and Reserve volunteers than could be used and we expect this to remain the case.

MSC's wartime shore military personnel strength is made up of 85 percent reservists who will supplement headquarters and area commands and staff the MSC offices which must be established worldwide. These reserve units drill regularly, are exercised periodically, and were recently drilled during the worldwide NATO sponsored command post exercise "Wintex-Cimex 89". All performed superbly.

QUESTION: To resolve some of our serious budget problems additional missions are being considered for the Reserve and Guard. In view of this, have any studies been made to determine what the proper force mix of active duty and reserves should be for TRANSCOM?

Are any active-duty missions planned for transfer to the Reserves or Guard during Fiscal Years 1990-1991? If so, what will be the impact on TRANSCOM and airlift readiness?

ANSWER: Yes, studies have been made to determine what the proper force mix of active duty and Reserve forces should be for USTRANSCOM.

Since 1984, the USAF Airlift Total Force Plan has been MAC's baseline for analyzing the proper active/reserve mix of airlift forces. Our ability to provide strategic and tactical airlift to the warfighting CINCs was the primary concern when MAC developed this plan and remains the focus when making adjustments to the mix. This plan, developed in conjunction with our reserve partners, calls for an orderly, time-phased transfer of aircraft to the Air Reserve Component (ARC) in conjunction with the C-17 becoming operational. In fact, a portion of the C-17 fleet will roll off the assembly line and directly into ARC units. MAC's active/reserve mix maximizes the capability of the nation's airlift assets without negatively impacting the ability to meet and sustain its pilot retention requirements. Pilot retention is a volatile area and arbitrary changes to the force mix would create turmoil in such areas as readiness, aviator absorption, training levels, and recruiting.

MSC participated in a 1987 Navy wide zero-based review of reserve manpower reqquirements, which validated all MSC reserve requirements. At present the MSC reserve/active mix of 75/25 percent, respectively. Augmented by functions performed by private sector companies, MSC active military and civilian staffing is adequate for assigned peacetime fleet support, special mission and strategic sealift activities.

Due to budget constraints, MAC is reducing the active duty C-130 force by 30 aircraft. Twenty-eight of these aircraft are C-130E models, which will be used to upgrade several Reserve and Guard units currently flying older C-130s. While not a transfer, this modernization will enhance the readiness of our tactical airlift fleet in the Air Reserve Component.

Question: The United States has committed itself to be able to provide ten divisions (four in place and six additional) and sixty reinforcing tactical fighter squadrons in ten days for the defense of Europe (the "10 in 10" concept).

As General Leland said this morning, "we have yet to fulfill that commitment."

Can you tell the subcommittee when TRANSCOM will have the lift capability to meet this commitment?

Answer: Our ability to meet our commitment to deploy six divisions and sixty tactical fighter squadrons to Europe in ten days depends on a balanced and economical mixture of aircraft, sealift, afloat prepositioning and POMCUS. We have not completed our estimates of when we will reach our objective under the revised budget guidance, and I do not expect to have a specific projection until this fall when we set the objectives for the FY 1992-97 defense program.

Internal Audit

Question: Has the CINCSOC Inspector General conducted an internal audit and inspection of all purchasing and contracting actions through the Special Operations Command? (Required by Section 1211 of the National Defense Authorization Act for fiscal years 1988 and 1989.)

Answer: No he has not. The command has not established a contracting activity as yet. However, it is part of our approved acquisition concept. We plan to begin our own contracting in the CY 1991 time frame. At present we have plans to establish an Internal Review Branch consisting of four auditors, under the Inspector General, prior to establishing the contracting activity. This branch will pursue an aggressive and continuous program of internal audit and review when activated. Presently internal headquarters requirements are contractually satisfied through host/tenant arrangements and the support of other agencies. Thus, audit and inspection requirements are fulfilled via the policies and procedures of the permanent organizations supporting USSOCOM.

Personnel

Question: The 1986 legislation directed that the Commander of the Special Operations Command monitor promotions, assignments, training, and retention of Special Operations officers. It is understood that the Department of Defense expanded this to cover all Special Operations personnel. What has the command done to implement this aspect of the 1986 legislation? Do you feel that the separate Services management of Special Operations Forces personnel is adequate?

Answer: The command is monitoring the professional development of all Special Operations personnel. This unique mission is a shared responsibility among the USSOCOM staff, component commanders, special operations schools and the Services. The command views the intent of this responsibility as ensuring special operations forces are not treated in an inequitable fashion. USCINCSOC is not directly involved with each special operations assignment, promotion or school assignment, but as the Special Operations advocate, he ensures the adequate and equitable treatment for all Special Operations personnel. This advocacy role is not intended to circumvent the prerogatives of other commanders or Services.

As was stated earlier, this is a unique responsibility for a Unified Command. In the past, this responsibility has been a service domain, with large, well established and organized military personnel centers and schools which monitored professional development on behalf of their respective Service and commands.

Cooperation with the Services has been outstanding as the command continues to formalize and expand its monitorship role. Also, the command does consider the separate service management of Special Operations forces personnel to be effective and adequate. The command does not duplicate existing systems, but uses those systems in accomplishing its responsibility.

USCINCSOC is exerting his advocacy and is involved in the specified subsets of Professional Development. Promotions: The command receives and reviews all promotion lists and its components also provide comparative selection data. Assignments: The command is actively involved in the assignments to its own headquarters, key assignments to its components and selected non-DOD assignments. USCINCSOC is personally involved in the selection and assignment of key subordinate commanders and staff. In coordination with service personnel centers, the command is involved with follow-on assignments of special operations personnel from Intermediate and Senior Service Schools. Unit Training: The command is actively involved in planning and executing Special Operations related unit exercises worldwide. The command has established the Joint Special Operations School Integration Committee (JSOIC) that is comprised of USSOCOM staff and component school representatives. The JSOIC studies issues affecting SOF training and education, and is focused on cooperation between the component schools to achieve coherent, effective training.

Individual Training: The command monitors the selection lists, provided by the services, for professional military education and is actively involved in graduate assignments. USCINCSOC sought and obtained the Army Chief of Staff's approval for a Special Operations Fellowship at the National Defense University. The Air Force has provided the opportunity for a special operations officer to participate in Air University's Research Fellows Program. Also the command's component schools are actively involved with individual training via qualification and other related skills training courses. Retention: The culmination of all these professional development efforts is to ensure high quality personnel are retained. USSOCOM and its components are focused on this effort.

Head of Agency

Question: Is the CINCSOC able to act as the Head of an Agency in the Area of Equipment Acquisition?

Answer: Yes he can. The Command has the statutory mission to develop and acquire SO-peculiar equipment, and to acquire SO-peculiar material, supplies and services. To accomplish this mission, the National Defense Authorization Act for Fiscal Years 1988 and 1989, section 1211, gave USCINCSOC Head of Agency for Acquisition authority under Chapter 137 of Title 10, United States Code. On 4 May 1988, the Secretary of Defense signed the DoD implementing directive. With this authority, and the 24 Jan

89 POM/Budget decision by the Acting Secretary of Defense, the Command will now be able to prioritize requirements, determine acquisition procedures, and ultimately fund SOF programs. We will manage the acquisition of SO-peculiar materiel through agreements with other agency heads to delegate procurement functions and responsibilities and by establishing/ designating a contracting activity for selected SO-peculiar procurement. Finally, it should be noted that some equipment improvements have already materialized simply as a result of focusing Command attention upon current Service SOF programs.

Operational Readiness Rates

Question: In your prepared statement, you state that "Our SOF Air Force mission capable rates and spares situation are currently satisfactory." What is the operational ready rate for SOF dedicated airlift in the overseas areas? I understand that during a recent exercise in Europe, only one out of four helicopters was able to participate. Is this true? What is the problem?

Answer: Operational readiness is tracked by this headquarters through the Status of Resources and Training System (SORTS). In February, the overseas commanders reported overall SORTS levels as follows:

(DELETED)

Without the name of the referenced exercise, accurate answers to your direct questions are not possible. However, 21st SOS participation in European based exercises may have been interrupted due to unit conversion from rescue HH-53s to special operations MH-53Js (OCT 88-JAN 89). As the HH-53s from the unit were placed in depot for MH-53J modification, backfill MH-53Js from CONUS were provided to conduct unit missions. These backfill aircraft had to be dismantled and reassembled in Europe. During this period, some degradation of operational readiness rates occurred. Since then, the 21st SOS has carried a SORTS (DELETED)

Overall mission capable rates vary on a day-to-day basis and are tracked very closely by the unit commanders and parent wings. Aircraft mission capable rates are compiled and maintained by the services. This historical data can be used to measure a weapon system's availability to accomplish prescribed missions. As I mentioned, operational readiness generally improves when aircraft are flying in support of an exercise away from home station. For example, both the 1st and 39th Special Operations Wings were rated excellent overall during the recent Operational Readiness Inspection administered by the Military Airlift Command. Each wing compiled sortie effectiveness rates of 94 and 98 percent respectively. Sorties were flown against comprehensive mission taskings designed to measure the unique night low-level capabilities of each weapon system.

Personnel

Question: What is the status of Service's pilot retention programs for Special Operations aircraft? Are these pilots eligible for any of the pilot bonus program? If not, why not?

Answer: For aviators to qualify for the bonus Public Law 100-456 requires the Secretary of the Air Force to designate their aviation specialty as critical based on current shortages. Rotary wing pilot inventories and retention rates could not substantiate the critical designation, consequently, only fixed wing pilots were designated as eligible for the bonus. Since the program was initiated, four PAVE LOW pilots have submitted separation papers. Dissatisfaction with the exclusion of rotary wing pilots from the bonus program was a factor. USSOCOM has brought this to the attention of the Chief of Staff, USAF. Although we support solving this problem by legislation through an increase in the Aviation Career Incentive Pay (ACIP), SOF has a problem caused by the bonus exclusion. CINCSOC intends to pursue a short-term solution with CSAF.

Question: How do you intend to attract the best pilots and other aircrew members the Service's can offer for special operations duty?

Answer: The SO mission generally attracts plenty of volunteers. The Air Force Military Personnel Center and the Military Airlift Command (MAC) generally select qualified aircrew members from other aircraft systems to man special operations requirements. 23 Air Force uses an orientation program to solicit volunteers and screen light lift helicopter pilots for upgrade to PAVE LOW. The MC-130 COMBAT TALONS are selectively manned with pilots having a minimum of 1000 flying hours and excellent flying checkride history. With very rare exceptions, there are no Undergraduate Pilot Training (UPT) entries into the MC-130. The AC-130 gunships and HC-130 tankers take only a small number of UPT graduates per year with the balance coming from other flying resources, usually C-130 tactical airlift crews.

Question: The Goldwater-Nichols DOD Reorganization Act of 1986 contained a number of provisions to ensure that better quality officers are assigned to joint duty assignments. Have you seen any positive results of this act?

Answer: Yes we have seen positive results from these provisions. The two strongest indicators of quality are promotion and Professional Military Education (PME). Since activation of USSOCOM, promotion selection rates (first time considered) for officers assigned to Headquarters USSOCOM have been significantly above the service-wide selection rates. The following data is provided:

	Considered/ Selected	USSOCOM	Service-Wide
1988 Army Boards			
Major	1/1	100%	64.8%
Lieutenant Colonel	5/5	100%	65.8%
Colonel	5/8	62.5%	39.6%
1989 Army Boards			
Major	0/0	-	68.7%
1988 Air Force Boards			
Major	2/2	100%	83.0%
1988 Navy Boards			
Commander	1/1	100%	70.0%
Captain (06)	1/2	50.0%	50.0%
1989 Captain (06)	2/4	50.0%	55.0%
1988 USMC Boards			
Colonel	1/1	100%	50.0%
1989 USMC Boards			
Colonel	2/0	-	47.0%

The command continues to receive a high percentage of PME graduates for assignment; for example, 93 of 136 (68%) of the officers assigned to the Headquarters since activation have been PME graduates. It should be noted, however, that in-residence attendance is a function of availability and timing in an officer's career; non-PME attendance does not specifically indicate lower quality. Also, the Navy places a higher priority on sea assignments and schedules school attendance as it fits into the sea and shore duty rotation.

The Service personnel centers screen records to ensure high quality officers are nominated for assignment. The command then further reviews the officer's records before accepting the officer.

Roles and Responsibilities

Question: Would you explain the roles and interactions of the ASD/SOLIC, the USSOCOM, and the Washington Office of USSOCOM. What are each of these offices primary responsibilities?

Answer: In complying with the assigned roles and responsibilities of the OASD (SO/LIC) and USSOCOM as defined in law, executive order, and DOD directives, the OASD (SO/LIC) interacts with USSOCOM to provide overall supervision (including oversight of policy and resources) of special operations activities. Current directives require all communications between Commanders of unified combatant commands and offices within OSD be routed through the Chairman, Joint Chiefs of Staff.
USSOCOM prepares assigned forces to carry out their assigned wartime and contingency missions in support of the regional unified commands, and, if directed by the President or SECDEF, plans and executes special operations missions. The USSOCOM Washington office functions as an extension of the Headquarters and maintains close association with the many Washington agencies involved in special operations.

SOF Budget

Question: In your prepared statement, you mention that the first SOF Readiness Study can be summarized by stating that it identified and catalogued the deficiencies in special operations capabilities; and that in practically every case, the parent Services have recognized these deficiencies and have implemented programs or are studying alternatives to remedy these shortfalls. You go on to state that to ensure funding is available to correct these deficiencies, USSOCOM has justified an adequate FY 90 and 91 budget and is exercising oversight of SOF programs in the FY 90-94 Five Year Defense Plan. Will you only be exercising just oversight starting in fiscal year 1992? It is my understanding that starting at that time you will be totally responsible for the preparation and execution of all SOF budget programs.

Answer: USSOCOM will not exercise just oversight starting in fiscal year 1992. On January 24, 1989, the Acting Secretary of Defense assigned program/budget development responsibilities for Major Force Program 11 (MFP-11), Special Operations Forces (SOF) to USCINCSOC. The command will exercise these responsibilities fully in connection with the FY 1992-1997 DoD Planning, Programming and Budgeting cycle. To establish procedures to carry out program/budget responsibilities, USCINCSOC, with the assistance of the Chairman, Joint Chiefs of Staff, and the Assistant Secretary of Defense for Special Operations and Low Intensity Conflict, is presently working with the Services to develop the necessary executive agreements and appropriate personnel authorizations to insure full and complete resourcing of SOF programs (both MFP-11 and non-MFP-11 resources). Specific USSOCOM and Service responsibilities for programming/budgeting all SOF, and for programming/budgeting non-MFP-11 resources to support SOF programs will be addressed in the executive agreements to be negotiated by USSOCOM and the Services. USCINCSOC will assume budget execution responsibilities for selected MFP-11 programs in fiscal year 1991 and for all MFP-11 programs in fiscal year 1992.

Training

Question: We realize CINCSOC is responsible for training assigned forces; monitoring the training and professional military education of special operations forces officers; ensuring the combat readiness of forces assigned to SOCOM; and, monitoring the preparedness to carry out assigned missions of special operations forces assigned to other unified commands. Concurrently, each Service is responsible for providing qualified personnel/crews to carry out assigned missions of special operations forces assigned to unified combatant commands, including SOCOM. Are the Services training personnel with similar functions to the same tasks, conditions, and standards? (i.e., are vertical lift crews, MH-53 Pavelow and MH-47 helicopters, being trained to same tasks, conditions and standards?) If not, why not?

Answer: The Command has reviewed its joint, interoperability training responsibilities and has begun to develop actions to eliminate discrepancies in tasks, conditions and standards for similar functions. Components of USSOCOM have been given proponency for some specific functions of SOF. For example, Navy Special Warfare Command (NAVSPECWARCOM) has been designated as the

proponent for SOF underwater operations and USA John F. Kennedy Special Warfare Command and School (USAJFKSWCS) for military free fall operations. As such, they establish, with the approval of USSOCOM, policies and procedures to standardize training within these functions for all Services' SOF. In the vertical lift arena, some standardization has already been accomplished, and there are near-term plans to coordinate training of all those assets to the same tasks, conditions and standards to support similar joint or combined special operations missions. USSOCOM and its components continue to aggressively pursue a goal-oriented program that exemplifies coherent, effective joint training to ensure standardization for all similar functions throughout SOF. Also, the Special Operations Aircrew Interchange Program (SOAIP) will soon conduct aircrew exercises at Kirtland AFB, NM that will include US Army SOF aviation units for the first time.

Question: What is SOCOM's role in insuring all of SOCOM forces are trained to the same standards for similar tasks and conditions, thus insuring interoperability of these forces? What is SOCOM's role in establishing these tasks and standards?

Answer: The Command's training responsibilities include, and extend beyond, those previously held by the Services. Responsibilities for interoperability; joint doctrine; tactics, techniques, and procedures; and others in USSCOM's mandate require integration of component warfighting elements into a cohesive, trained joint force. The Command's responsibility for a trained ready force includes selection, qualification, and advanced training of SOF--all previously Service responsibilities--as well as the development of doctrine and standards against which its forces are measured. The Command works with its components, the Services, the regional unified commands and their components to identify training shortfalls and develop actions to eliminate them. The Joint Special Operations Schools Integration Committee studies issues and examines SOF school curricula for redundancy and duplication, and determines the need, feasibility, and suitability of establishing specialized courses of instruction for SOF personnel. As the senior SOF military headquarters, USSOCOM issuesdirectives and guidance to its components and serves as the final approving authority for training strategies developed by them. Additionally, USSOCOM hosts a quarterly training conference to schedule and coordinate joint training events among USSOCOM components through a training systems requirements and allocation process.

Aircraft/Airlift Requirements

Question: The May 19, 1987 Report on Special Operations Forces Airlift Support has certified Special Forces airlift requirements. In light of ongoing force structure changes, and in particular, potential changes in Europe, Korea, events in the Middle East and Columbia to name a few, do you see a need to revalidate the requirement? Now that CINCSOC has been established, what has been done or is being done to revalidate these airlift requirements? (i.e. use of the Joint Mission Analysis Process)

Answer: Revalidation of not only Special Forces airlift, but all SOF requirements is an ongoing dynamic evolution. The 1987 SOF Report on Airlift Support is a joint-Service supported and congressionally approved baseline. We use this document as a point of departure for evolutionary changes. The theater coordinated USSOCOM Joint Mission Analysis (JMA) will determine the possible need for changes in the 1996 timeframe. The JMA will involve all five combatant CINCs, take two years to complete, and will become a living document that addresses new and changing requirements such as those addressed in your question. The emerging requirements will then be placed into the 1992-1997 POM process.

Question: Please provide an overview of this (Joint Mission Analysis) process.

Answer: The USSOCOM Joint Mission Analysis (JMA) is a major initiative being undertaken in coordination with the Services, theater CINCs, and national agencies:

- to analyze future theater and national mission area requirements special operations (SO), psychological operations (PSYOP), and civil affairs (CA) forces across the conflict spectrum.
- to identify changes in doctrine, training, organization, materiel strategy, policy, laws and agreements necessary to meet theater and national roles and missions.
- to provide support to POM FY 92-97 and FY 94-99 development.

The JMA process began in November 1987 with the drafting of the USSOCOM Operational Concept. The first chapter of the JMA, a Joint Mission Analysis with USSOUTHCOM, began in early October 1988 and will be completed in June 1989. The second Joint Mission Analysis, of USPACOM, was initiated in December 1988. (There will be a Korea adjunct to the USPACOM JMA, starting in April 1989.) USSOCOM and regional CINC teams are working together to develop methodologies and scenarios to address operational and force support requirements and capabilities in peacetime (to include low-intensity conflict and regional contingency operations) and global war from each theater's perspective and from an integrated multi-theater perspective. The JMA effort will take approximately two years to complete all five regional CINCs, but the end result will be a complete and detailed validation source document of SO, PSYOP, and CA force requirements and operational shortfalls in all theaters across the conflict spectrum. A key feature of the JMA is that, at each step in the process, the scenarios and operational concepts used as a basis for the future requirements are fully coordinated with the regional commands and the other supported national agencies. This ensures the future projection (FY 96 and beyond) of theater and national strategies, and country-by-mission strategic priorities, and the concepts for the employment of all forces and execution of their missions are realistic, reasonable, and accurately reflected in the analysis. Uncertainties concerning future conditions are handled by making assumptions for a base case and then examining a limited number of alternative futures in excursions from the base case. The Joint Mission Analysis results will be integrated into the Planning, Programming, and Budgeting System (PPBS); the Joint Strategic Planning System (JSPS); the Joint Operational Planning and Execution System (JOPES); and, theater plans through existing USSOCOM, theater CINC, and Service processes.

Question: When revalidated, will the results of this review be reflected in the 1992-1997 Five Year Defense Plan (FYDP)?

Answer: The initial results of the Joint Mission Analysis (JMA) will be available to senior policy makers in preparing the 1992-1997 SYDP. The degree to which the JMA requirements are incorporated in the 1992-1997 SYDP will be directly influenced by the funding constraints of fiscal guidance.

Question: What is being done to provide an exfiltration capability for inserted Special Operations Forces?

Answer: USSOCOM is pursuing a number of programs to enhance this capability. For shorter range missions, we are developing the MH-60K, a special operations derivative of the Army UH-60A, Black Hawk. For medium range missions we are currently fielding the MH-53J, an upgraded version of the MH-53H Pave Low III. We are also developing the MH-47E, a special operations derivative of the Army CH-47D. For long range missions where landing is feasible, we currently have the MC-130E Combat Talon I aircraft and are developing the MH-130H Combat Talon II. For the majority of long range missions, which require not only high speed but also vertical takeoff and landing capability, we are developing the CV-22A, a derivative of the joint service V-22 Osprey. All of these aircraft, with the exception of the CV-22A, should be in the field by FY 1993. Initial CV-22A deliveries will be in FY 1995.

Question: What can you tell us about the Advanced Technology Tactical Transport?

Answer: The Advanced Technology Tactical Transport (ATTT) is a program intended to explore current and emerging aeronautical design concepts which may be applicable to future light transport aircraft. The funding appropriated by Congress is being used to demonstrate selected capabilities. USSOCOM will review the results and determine whether a requirement exists for this capability.

Question: What is being done to satisfy the 1000 to 1200 nautical mile radius now that

(DELETED)

Answer: On missions where landing is feasible, the MC-130E and MC-130H can provide the necessary range. However, the majority of exfiltrations will be from remote ares where landing, even by short-takeoff-and-landing (STOL) aircraft, will not be possible. Many of these missions would be accomplished by the CV-22A. However, current technology does not provide the combination of vertical-takeoff-and-landing (VTOL) capability and

(DELETED)

USSOCOM is closely monitoring technological advancements which may make such operations feasible. Until such technology is available,

(DELETED)

Question: Is the 1000 to 1200 nautical mile radius a valid requirement?

Answer: Yes. Although the majority of SOF exfiltration missions are within the unrefueled combat radius expected for the CV-22A, some special operations missions will require exfiltration from ranges exceeding 1000 nautical miles.

High Probability Conflict

Question: In your testimony you identified "High Probability" conflict and we have heard the term "Special Operations/Low Intensity High Probability" conflict. Would you please define or explain, and describe the application of these terms as they pertain to environment (i.e., high, medium, and low) and the levels of probability (i.e., high, medium, and low). Is this same definition understood by the other unified CINCs?

Answer: The term "high probability" conflict is used as a synonym for what most would generally refer to as low intensity conflict (LIC). My written testimony to you makes that comparison clear, but I obviously omitted that analogy during the course of our discussion. I believe the term was first used by General Woerner, USCINCSOUTH, in his testimony before the House Appropriations Committee. He said, "The threat most often faced is commonly referred to as low intensity conflict but which should more aptly be titled high-probability conflict." I concur in the view that the term in some respects better captures the prevalent nature of such conflict, as the 20 plus insurgencies currently ongoing in the world would indicate. In this vein, recent evidence suggests that an inverse relationship generally prevails between the conflict environment and its level of probability. Cost and deterrence have served to make high intensity conflict less probable whereas the "shrinking world", weapons proliferation, and a myriad of socio-economic factors have combined to make low intensity conflicts more likely. Given the level of interest and dialogue within DoD concerning this critical issue, I would feel confident in the assertion that the other theater CINCs would equate high probability conflict to low intensity conflict as well.

Determining Resource Requirements

Question: How are personnel, equipment, and supply requirements derived? Have these requirements been prioritized by target or by region/theater of operations? Which priority was considered first - region/theater or target? Why?

Answer: In the short term, these requirements are derived by validating Service-inherited initiatives in conjunction with ongoing Service component and regional CINC inputs. USSOCOM has developed a Joint SOF Master Plan and is developing numerous supporting plans from which all requirements will be derived. Master planning will be guided by USSOCOM's Joint Mission Analysis (JMA) initiative which is considering the entire spectrum of warfare. Prioritization will be neither by region/theater nor target, exclusively. Rather, the analysis will utilize existing documentation, but more importantly will, in conjunction with the warfighting CINCs, derive these personnel, equipment, and supply requirements for Special Operations, Psychological Operations, and Civil Affairs Forces based on validated 1996 requirements using both qualitative and quantitative inputs. The results of the preceding process allows USSOCOM to meet its statutory tasking of "Validating requirements" and "Establishing priorities for requirements" while "Ensuring the interoperability of equipment and forces" (Title 10 USC, Sec 167).

Question: You are both probably well aware of the recent articles that have been surfacing that recommend reducing the readiness accounts in the near-term because of Secretary Gorbachev's initiatives. Please tell us what you see as the near term Soviet threat in your theaters and your reaction to these calls for a standdown in your readiness capabilities.

Answer: Secretary Gorbachev has succeeded in a propaganda campaign that portrays the Soviet Union as champion for arms control without, so far, any Soviet reduction of force capabilities in the Far East. However, since his 1986 speech, the Soviets have been replacing older, less capable forces/units with a steady buildup of modern, advanced capability forces/force structure. They have been increasing their nuclear capabilities: more dual-mission, nuclear capable aircraft; replacement of YANKEE ballistic submarines with DELTA's; and introducing modern, mobile ballistic missile systems (SS-24 and SS-25 while the SS-20's are being destroyed due to INF). I see no change in the Soviet's modernization campaign, in either nuclear or conventional forces. I expect routine PACOM deployments and exercises designed to show our allies our capability to support joint/bilateral operations to be portrayed by the Soviets as aggressive and destabilizing.

SOVIET THREAT

QUESTION: You are both probably well aware of the recent articles that have been surfacing that recommend reducing the readiness accounts in the near-term because of Secretary Gorbachev's initiatives. Please tell us what you see as the near term Soviet threat in your theater and your reaction to these calls for a standdown in your readiness capabilities.

LTG Leland: Although we are pleased with the new Gorbachev initiatives until they result in substantial and verifiable force reductions, the Warsaw Pact will remain a formidable military threat. We in the military must deal with capabilities, not intentions. Irrespective of his intentions, Gorbachev's policies could be reversed in future years, or by subsequent Soviet leaders. Despite the rhetoric, the threat has not yet substantially changed. Given that reality, it would be wrong to draw down our readiness. Protection of the readiness levels of our forward deployed and deploying forces is crucial to their value as a deterrent, and, should deterrence fail, as a warfighting force.

Question: We have been told by Pentagon witnesses that the CINCs now have a direct input into the budget and resource allocation process. Please explain how you interface with the military departments and the budget process in the department. Please use the 1990 request as an example to lead us through the process.

Answer: Input into the budget and allocation process started with the Integrated Priority List (IPL). USCINCPAC's FY90-94 IPL was given to the service component commands in June 1987, stating USCINCPAC's program priorities. The service component commands responded by developing input to the Program Objective Memorandum (POM), a programmatic statement of how to address the warfighting requirements. Before this POM input was sent to the components' parent service, it was reviewed at this headquarters. The Military Department POMs were reviewed by OSD and USCINCPAC played directly in the DoD FY90-94 Program Review during the Defense Resources Board sessions. The next point of influence was the FY90-91 Budget Review. Again, USCINCPAC directly influenced this process by weigh-ins through the Chairman of the Joint Chiefs to the Deputy Secretary of Defense and Secretary of Defense (this year). The last step in the process is the current round of appearances before the committees and subcommittees of Congress. At all steps during the process, USCINCPAC has the ability to influence the budget and allocation process.

CINC Influence on the Budget

QUESTION: We have been told by Pentagon witnesses that the CINCs now have a direct input into the budget and resource allocation process. Please explain how you interface with the military departments and the budget process in the department. Please use the 1990 request as an example to lead us through the process.

ANSWER: USCINCEUR's Integrated Priority List (IPL) is the touchstone document for programming within theater. This document is provided to the Secretary of Defense, Chairman, Joint Chiefs of Staff and theater Component Commanders for consideration in programming and budgeting. Another avenue available for USCINCEUR to influence resource allocation is through DoD's Defense Resources Board (DRB). The CINC attends DRB meetings to discuss his priorities, present resource recommendations, and provide information on the operational impact of budget actions under consideration. It is through these appearances and the submittal of the IPL that USCINCEUR has significant influence on the DoD budget process.

Question: We recently held a hearing on the problems in the Army Guard and Reserve to fulfill their responsibilities within the total force concept. From your perspective as the receiving commands, is the total force concept viable and currently working.

Answer: [deleted]

Army Total Force Concept

Question: We recently held a hearing on the problems in the Army Guard and Reserve to fulfill their responsibilities within the Total Force Concept. From your perspective as the receiving commands, is the Total Force Concept viable and currently working?

General Leland: Overall, the Total Force Concept is both viable and currently working. There are, however, significant limitations within the system, primarily relating to Combat Support/Combat Service Support elements. As you know, approximately 50% of the Army Reserve Combat Service Support force structure is unsourced and much of the existing force structure is reported at readiness levels of C-4 or C-5. Approximately 35% of the Army National Guard Combat Service Support forces are reported at C-4 or C-5. Reported shortfalls relate to personnel, equipment and training. Undocumented shortfalls also exist where units train on equipment different from that to be encountered when deployed in support of an Active unit.

Question: Do either of you see additional funding problems in 1989 and how long is your current list of unfunded requirements?

Answer: FY89 saw a slight downward trend in Operations and Maintenance funding. Overall requirements are taken care of but the trend is not good. There are incremental changes in steaming days, flying hours, and vehicle miles that tell me we will have to make trade-offs in the future to maintain the level of readiness we have today.

Question: Do either of you see additional funding problems in 1989 and how long is your current list of unfunded requirements?

General Leland: We cannot ignore the fact that the funding levels of 1989 are insufficient to maintain the degree of security we envisioned a year earlier. For, the FY 89 amended budget was $33 billion less than the proposed spending level sent to Congress as part of the first biennial budget -- FY 88-89. The deactivation of one Army brigade, and two Air Force tactical fighter wings are representative of unfunded requirements most impacting our vital interests.

Question: What are your current overall readiness levels, what do you estimate they will be under the Reagan 1990 request and what do you estimate they will be if the 1990 request is 2% to 5% below the Reagan level?

Answer: [Deleted]

Overall Readiness Levels

Question: What are your current overall readiness levels, what do you estimate they will be under the Reagan 1990 request and what do you estimate they will be if the 1990 request is 2% to 5% below the Reagan level?

General Leland: Forward deployed and deploying combat forces in U.S. support of Europe are substantially ready and would remain so under the Reagan 1990 request. Combat Support and Combat Service Support forces remain adequate for peacetime but marginal for war. The impact of reductions to this request is difficult to forecast: the specific allocation of these reductions is not yet known. Traditionally, such reductions impact operating tempo (both directly and indirectly) and tend to adversely affect such intangibles as the morale and welfare of the troops. Such effects, while real and significant, are not easily measurable in the current reporting system. Reductions to the sustainability of our forces are also likely from any decrement in funding.

Question: Please tell us what your overall priorities are for 1990/1991 and the major areas where you see funding shortfalls.

Answer: My top priorities for the FY90-91 budget are anti-submarine warfare, surveillance and intelligence, air warfare, amphibious lift, and sustainability.

We are still in the process of refining an amended budget submission. After this submission is complete a full picture will be available. Right now, it would be premature to speculate where funding shortfalls might occur in the new budget proposal.

Overall Priorities

QUESTION: Please tell us what your overall priorities are for 1990/1991 and the major areas where you see funding shortfalls.

ANSWER: Theater priorities remain: (1) modernizing theater nuclear forces; (2) modernizing conventional forces with an emphasis on FOFA systems; (3) unit readiness; (4) acquiring adequate strategic sea and airlift; and (5) improving sustainability. We anticipate continued progress, but at a slower rate.

Question: General Moore's statement talks about the easier to maintain equipment that is being fielded. Please provide some specific examples of the experiences you are having in this area and also in the higher costs to maintain and operate this equipment. From your perspective, what are the trade-offs between easier maintenance and higher operating/maintenance costs?

Answer: New generation aircraft are by far easier to maintain. The F-15 has evolved into a superb and very reliable fighter. The F-16 has come onboard with far fewer fielding problems as has the F-18. Certainly the cost per failure is more expensive to fix due to the sophisticated Avionics Intermediate

Shop test equipment required to evaluate today's technology; however, the greatly improved reliability and Mean Time Between Failure rates equate to cost effectiveness. Self-analyzing aircraft greatly reduce the down time we experienced while looking for systemic problems on older aircraft. Levels of support personnel for our newer aircraft are significantly lower than for older versions. Trade-offs between higher costs are more than covered by far greater reliability and continued high readiness rates.

Easier to Maintain Equipment

QUESTION: General Moore's statement talks about the easier to maintain equipment that is being fielded. Please provide some specific examples of the experiences you are having in this area and also in the higher costs to maintain and operate this equipment. From your perspective, what are the tradeoffs between easier maintenance and higher operating/maintenance costs?

ANSWER: A good example is the M-1 tank which was designed, among other things, to be easier to maintain. The power pack can be replaced in about one-third the time required for an M-60 series tank. The sophisticated fire control system uses integrated circuit boards which are easy to fault-isolate, remove and replace. Shifting time-consuming maintenance away from the forward area enables us to rapidly return tanks to combat. There are some higher costs in terms of stockage requirements for relatively expensive circuit boards. But I believe these costs are offset by increased combat capability.

Question: General Moore's statement says that future readiness may be reduced by actions already taken to stretch out ship overhauls and depot level aircraft maintenance to limit funds for exercises and training fuel. Please provide specifics on the extent of these actions within your commands.

Answer: Current funding profiles necessitate one year deferrals of one Salvage and Rescue Ship in FY-89, one LHA and one SSN for FY-90, and for FY-91, one cruiser, one destroyer and 2 LHAs. (DELETED)

In order to meet FY-88 funding reductions, CINCPACFLT has reduced non-deployed ship OPTEMPO from (DELETED) 27 to 25 days per quarter, (DELETED) and reduced Anti-Submarine Warfare squadron OPTEMPO to 25 days per quarter. These reductions have continued during FY-89 in order to meet austere fuel allocations.

(DELETED)

The Army performs very little major overhaul rework in theater but coordination with Department of the Army (depot maintenance) indicates that funding profiles will preclude performance of a significant amount of the overhaul requirement and will ultimately result in vehicles being parked for lack of repair.

Ship Overhauls/Depot Level Aircraft Maintenance

Question: GEN Moore's statement says that future readiness may be reduced by actions already taken to stretch out ship overhauls and depot level aircraft maintenance and to limit funds for exercises and training fuel. Please provide specifics on the extent of these actions within your commands.

General Leland: Forward deployed forces in Europe generally receive priority on spares; the direct impact is therefore probably minimal, although sustainability and reinforcement capabilities will be reduced. For reinforcing forces, deferred maintenance means that troops will train on, and may have to fight with, equipment that is less than ready. Reductions in funding for exercises and training fuel reduce the training we can provide our forces; they will be less ready to meet the challenge of war.

Question: General Moore's statement identifies a problem with replacement spares. Please provide us with specifics as to the extent of this problem in both of your commands.

Answer: The spare problem highlighted in the statement deals with the USPACOM Army component's shortage of Hi-Tech, Hi-Cost items. These largely consist of Helicopter rotor blades and repair parts for missiles. The ongoing modernization process is a two edged sword. One side provides vital equipment with increased capabilities while the other side leaves sustainability wanting for its full range and depth of spare parts. Equipment being phased out also takes along its sustainment repair parts and directly affects our level of fill in pre-positioned stocks. Continuing investment in repair parts is essential to successfully support any protracted action.

Spares

Question: GEN Moore's statement identifies a problem with replacement spares. Please provide us with specifics as to the extent of this problem in both of your commands?

General Leland: As I alluded to earlier, replacement spares impact two broad categories - readiness and sustainment. We are not now experiencing any systemic problems with peacetime operating spares to support readiness.

(DELETED)

Question: Part of General Moore's statement is beginning to sound like a return to the 1970's. He says maintenance funding profiles will require the deferral of surface ship and submarine availabilities, limit maintenance packages to only essential repairs, and is requiring us to park aircraft and combat vehicles for lack of repair. Please provide us with the specifics on these problems in your command.

Answer: Current funding profiles necessitate one year deferrals of one Salvage and Rescue Ship in FY-89, one LHA and one SSN for FY-90 and for FY-91, one cruiser, one destroyer and 2 LHAs. (DELETED) In order to meet FY-88 funding reductions, CINCPACFLT has reduced non-deployed ship OPTEMPO from 27 to 25 days per quarter, (DELETED) (DELETED) and reduced Anti-Submarine Warfare squadron OPTEMPO to 25 days per quarter. These reductions have continued during FY-89 in order to meet austere fuel allocations.

(DELETED)

The Army performs very little major overhaul rework in theater but coordination with Department of the Army (depot maintenance) indicates that funding profiles will preclude performance of a significant amount of the overhaul requirement and will ultimately result in vehicles being parked for lack of repair.

Deferring Maintenance, Only Essential Repairs

Question: Part of GEN Moore's statement is beginning to sound like a return to the 1970's. He says maintenance funding profiles will require the deferral of surface ship and submarine availabilities, limit maintenance packages to only essential repairs, and is requiring us to park aircraft and combat vehicles for lack of repair. Please provide us with the specifics on these problems in your command.

General Leland: We are not parking aircraft and combat vehicles for lack of repair. But I am concerned that the continued decline in real funding could well take us back to those "hollow force" days before long. Recovery from those "hollow" days was expensive, probably much more than it would have been had we pursued a stable defense funding posture that provided for moderate real growth.

Question: Incorrectly prepositioned bulk petroleum appears to be a problem in both your commands. What is the extent of the problem and what are the alternatives you are exploring to correct the situation?

Answer: Current prepositioning of bulk petroleum war reserves in the Pacific Command is generally adequate. Forward prepositioning has vastly improved, due primarily to reasonable increases in war reserve levels from FY-83 to FY-88. However, one major concern is a need for forward-positioned fuel reserves in the Aleutians to support significant joint forces operations. In that vein, military construction is funded for FY-89 to build 300,000 barrels of storage at Adak Naval Air Station in the Aleutians. Also, the Defense Fuel Supply Center (DFSC) has conducted a favorable market survey to acquire 300,000 barrels of build-to-lease commercial storage at Dutch Harbor in the

Aleutians plus 300,000 barrels of leased commercial storage at Cook Inlet, Alaska. Expecting steady-state war reserve levels over the next several years, we plan to take some petroleum war reserves currently positioned on the West Coast and in Hawaii to fill this forward-positioned storage in the Aleutians.

Malpositioned POL

Question: Incorrectly positioned bulk petroleum appears to be a problem in both your commands. What is the extent of the problem and what are the alternatives you are exploring to correct the situation?

General Leland: We consider stocks malpositioned when they are not stored in the country of intended use or cannot be distributed to the point of intended use before safety levels are exhausted. Less than (DELETED) of our (DELETED) can be termed malpositioned. About (DELETED) of that amount (DELETED). This is a negligible problem which we expect to resolve through negotiations with the host nations concerned for leased facilities or additional pipeline system allocations, or with NATO infrastructure funding for additional storage.

Question: What are your specific training goals for your forces for 1990?

Answer: The Joint Chiefs directed USCINCPAC to develop a joint training plan to evaluate and analyze the uniservice, joint, and combined training conducted in this theater. Our ultimate goal is assured proficiency in the following areas:

- Offensive and defensive military operations at all levels of conflict.
- Controlling and coordinating U.S. operations with allied and other friendly nations.
- Providing timely and accurate intelligence to U.S., friendly, and allied commanders.
- Allocating resources among our forces.
- Maintaining interoperable command, control, and communications systems.
- Ensuring assigned and augmenting forces are equipped, trained, deployed, employed, and sustained in combat.

Our Service components have a good handle on these goals, through their normal training and various exercise programs. Through USCINCPAC oversight we hope to maintain high levels of proficiency despite shrinking defense budgets.

Training Goals for 1990

Question: What are your specific training goals for your forces for 1990?

General Leland: In the European theater, HQ USEUCOM has recently conducted a detailed analysis of our missions and tasks as specified by the Joint Strategic Capabilities Plan, treaty obligations and agreements, and regional initiatives. This review was designed to objectively identify and ensure accomplishment of those mission essential tasks necessary to maintain our forces in an operationally ready status. Resultant from this analysis was the determination and promulgation of a Joint Mission Essential Task List (JMETL). We are now in the process of identifying those Enabling Tasks (tasks requiring training/exercise resources) necessary for mission accomplishment, considering the required frequency for task proficiency, the proper framework/scenario for evaluation, the proper training vehicle, cost balance, and an evaluation schedule for the coming year. Next, these Enabling Tasks will be prioritized and will form the basis for a theater-wide Joint Training Plan which optimizes training resources and provides an overall perspective of our priorities. In a general sense, we expect to make more use of simulations, conduct more training at higher organizational levels and to react positively to budgetary, political and environmental constraints.

Question: Wartime medical capability is an area of concern to all of us. Where are we at solving this difficult problem?

Answer:

(DELETED)

Despite some setbacks, there have been some notable accomplishments and several initiatives are underway to address our medical shortfalls and improve our wartime medical support posture:

- Completion and dissemination of the USPACOM Medical Concept of Operations and Integrated Master Plan.
- Vastly improved medical communication equipment and enhanced joint medical planning and resource sharing initiatives in theater.
- Prioritization and extensive coordination of all theater medical MILCON, service POM, and JFIP initiatives for both peacetime and contingency support.
- Establish of dedicated strategic and tactical MEDEVAC channels to support a regional scenario in Korea.
- Aeromedical Evacuation (AE) CRAF (wide-bodied 767s) apportionment beginning in FY91 to meet some of the strategic AE shortfalls.
- Increased in-theater frozen blood storage and processing capability beginning in FY91 and beyond.

Question: Wartime medical capability is an area of concern to all of us. Where are we at solving this difficult problem?

General Leland: U.S. medical readiness in Europe has received considerable attention over the last seven years, with increased emphasis following the bombing of the Marine Barracks in Beirut in 1984. Over the last four years U.S. wartime capability has experienced an [illegible] of 9,500 hospital beds.

(DELETED)

Although these Wartime Host Nation Support (WHNS) beds could improve theater returns to duty, they will revert to UK use as U.S. capability increases. WHNS efforts for prepositioning medical assemblages in the

(DELETED)

The current bed capability supports theater evacuation policy. However, the current FYDP will procure

(DELETED)

Question: What are your specific priority readiness and sustainability requirements for 1990?

Answer:

(DELETED)

Question: How are you training your echelons above corps in your theater?

Answer: We train echelons above corps through maximum participation in JCS world-wide command post exercises (CPX), no-notice interoperability exercises (NIEX) and wargaming. CPX's are primarily procedural in nature and as such, allow us to fine tune our major OPLANs as they relate to our component commands and other warfighting CINCs. The NIEX's can exercise actual movement of forces in conjunction with procedural testing/training. We participate in the JCS NIEX program and have developed our own NIEX program. Flag officer participation in wargames in used periodically to test war-fighting strategies and exercise some of the more complicated command relationship's found in the Pacific area of responsibility (AOR).

Training for Echelons Above Corps

Question: How are you training your echelons above corps in your theaters?

General Leland: In the European theater, HQ USEUCOM has recently conducted a detailed analysis of our missions and tasks as specified by the Joint Strategic Capabilities Plan, treaty obligations and agreements, and regional initiatives. This review was designed to objectively identify and ensure accomplishment of those mission essential tasks necessary to maintain our forces in an operationally ready status. Resultant from this analysis was the determination and promulgation of a Joint Mission Essential Task List (JMETL). We are now in the process of identifying those Enabling Tasks (tasks requiring training/exercise resources) necessary for mission accomplishment, considering the required frequency for task proficiency, the proper framework/scenario for evaluation, the proper training vehicle, cost balance, and an evaluation schedule for the coming year. Next, these Enabling Tasks will be prioritized and will form the basis for a theater-wide Joint Training Plan which optimizes training resources and provides an overall perspective of our priorities. In a general sense, we expect to make more use of simulations, conduct more training at higher organizational levels and react positively to budgetary, political and environmental constraints. In regard to echelons above corps, we have determined that more training in "operational art," i.e., the level above tactical operations, is required; future exercises will be designed and structured to place more headquarters and fewer small units in the field during major exercises.

Question: General Leland mentions the warrior preparation center and the joint warfare center as focal points for his training efforts. Please explain what training these centers provide. Please discuss similar centers in your command.

Answer: USCINCPAC utilizes the Modern Aids to Planning Program (MAPP) that is provided by the JCS J8. This computer simulation capability is maintained and utilized primarily by the USCINCPAC J5 and used internally for strategic development and training for both the J3 and J5 directorates. We gain the assistance of the Naval War College in planning and conducting executive level wargames and seminars that are periodically conducted at HQ USCINCPAC. At the component level, uni-service computer models such as the Enhanced Naval Wargaming System (ENWGS), have been used effectively in training their staffs. In view of the impending JCS J7 MOP on Joint Training, we are currently examining the potential use of joint training tools such as those offered by the Joint Warfare Center. In this cost constrained environment, we are forced into trading some force deployments in exercises for similar computer scripted or simulated deployments.

Question: Simulation is being pushed as a more effective and less expensive way to train the troops. General Leland's statement alludes to the effort to develop the "right mix" of simulation, unit maneuver, command post and field training to compensate for the annual REFORGER exercise. Please explain the specifics of how you hope to compensate for the training lost by not having REFORGER each year and what you see as the benefits and problems with this approach. Please do the same for TEAM SPIRIT exercise in Korea.

Answer: TEAM SPIRIT is an annual exercise under presidential agreement which demonstrates U.S. resolve much like REFORGER. To meet budget reductions while maintaining that resolve, we have adopted a large-year/small-year concept. This concept will allow us to meet reduced costs and yet maintain our regional commitments.

Whether simulation is a more effective means of training troops is debatable, but it certainly is a less expensive way. Simulations can be effectively used to establish standard operating procedures. However, simulations must be reinforced by actual hands on training to refresh knowledge and to add realism. The key of course is to obtain the "right mix" to maximize training benefits while minimizing cost.

The Pacific Command's theater covers over 50% of the earth's surface and is predominately water. Because of this the preponderance of our forces are naval. Our assigned forces are stationed throughout the Pacific to quickly respond to short-notice contingencies anywhere in the basin. Due to force disposition and the vastness of our theater, the building of simulation/wargaming centers or a centrally located National Training Center would be cost prohibitive. However, USCINCPAC has initiated a wargame seminar series to train key leaders and we use JCS directed Command Post Exercises (CPX) to train battlestaffs of subordinate commands. Additionally, our Wargaming/Simulator Center is developing a wargame for training Crisis Action Teams and Joint Task Force staffs. At the component level, uni-service computer modules, such as the Enhanced Naval Wargaming System (ENWGS), have been used effectively in training their staffs. We are currently examining potential use of joint training simulation such as those offered by the Joint Warfare Center. In this cost constrained environment, we will be forced to trade force deployment for similarly scripted or simulated deployments. These efforts are not being taken as compensation for training lost, but rather to augment existing training to maximize training opportunities offered.

Right Training Mix

Question: Simulation is being pushed as a more effective and less expensive way to train the troops. GEN Leland's statement alludes to the effort to develop the "right mix" of simulation, unit maneuver, command post and field training to compensate for the annual REFORGER exercise. Please explain the specifics of how you hope to compensate for the training lost by not having REFORGER each year and what you see as the benefits and problems with this approach.

General Leland: The annual REFORGER exercise is our fulfillment of a commitment made to NATO at the time forward-deployed U.S. forces were substantially reduced. We do not intend to abrogate this commitment. We have, however, planned for the merging of REFORGER 89 and 90 in an effort to enhance the benefits of that major exercise. This is part of an on-going analysis of the full spectrum of our training and exercise programs. We have recently conducted a detailed analysis of our missions and tasks as specified by the Joint Strategic Capabilities Plan, treaty obligations and agreements, and regional initiatives.

This review was designed to objectively identify and ensure accomplishment of those mission essential tasks necessary to maintain our forces in an operationally ready status. Resultant from this analysis was the determination and promulgation of a Joint Mission Essential Task List (JMETL). We are now in the process of identifying those Enabling Tasks (tasks requiring training/exercise resources) necessary for mission accomplishment, considering the required frequency for task proficiency, the proper framework/scenario for evaluation, the proper training vehicle, cost balance, and an evaluation schedule for the coming year. Next, these Enabling Tasks will be prioritized and will form the basis for a theater-wide Joint Training Plan which optimizes training resources and provides an overall perspective of our priorities. In a general sense, we expect to make more use of simulations, conduct more training at higher organizational levels and react positively to budgetary, political and environmental constraints.

Combat Maneuver Training Center

Question: GEN Leland, how extensively is the Combat Maneuver Training Center used each year and do you see an increase or decrease in usage for 1990/1991?

General Leland: The Combat Maneuver Training Center at Hohenfels, Germany is this theater's answer to the National Training Center at Ft. Irwin, California. At this center we can train battalion sized elements on realistic terrain, in a realistic scenario and against a realistic adversary force. Battalion rotations are currently fully booked (54 per 14-month cycle); our projections for the future ensure full utilization of this valuable training resource.

Question: Where do your troops do similar training?

Answer: Due to the vastness of the Pacific Command's area of responsibility, we do not have a similar centralized combined arms combat maneuver training center. Each component command in USPACOM conducts maneuver and live munitions delivery in their local training and deployment areas. For example, the Pacific Fleet conducts instrumented, live-fire training at the Pacific Missile Firing Range (PMFR) in the waters around the Hawaiian Islands, and the Cope Thunder series of exercises conducted in the Philippines provide exceptional training opportunities for USPACOM units.

Question: What are the specific Operating Tempo goals for your command for 1990 and 1991? How will they be affected if your budgets are reduced two to five percent?

Answer: [deleted]

- US ARMY

--

(DELETED)

OPTEMPO

Question: What are the specific operating tempo goals for each of your commands for 1990 and 1991? How will they be effected if your budgets are reduced 2% to 5%?

General Leland: Operating tempo minimums for our component commands are set by their respective services, based on their best analysis of the tasks required to train and the level of operation required to maintain proficiency in those tasks. Generally, the Army minimum is 800 tracked-vehicle miles per year and 15 flight hours per aircraft crew. The Navy minimum is 50.5 steaming days per quarter for the deployed fleet and 25 hours per aircraft crew. The Air Force minimum for tactical aircraft crews is 19.4 hours per month. These levels were funded in the Reagan 1990 request. As indicated, however, these are minimums and do not equate to full combat readiness. The effect of any reduction in operating tempo funding is difficult to forecast and probably not linear: the recent stand down of most tactical jet flying in the Federal Republic of Germany indicated that small reductions in operating tempo can result in large reductions in readiness. This stand down roughly equated to a 7% reduction in operating tempo funding (25 days out of 365 days) for 11 units. Over half of these 11 units dropped readiness ratings to the C-3 or C-4 level, the remainder dropping from C-1 to C-2. Recovery took over 60 days for some units.

Question: What are the specific goals for your war reserve stocks and how close are you to meeting those goals? Are there specific problem areas in meeting these goals or is it just a funding problem?

Answer: [deleted]

War Reserve Stockage Goals

Question: What are the specific goals for your war reserve stocks and how close are you to meeting those goals? Are there specific problem areas in meeting those goals or is it just a funding problem?

General Leland: Defense Guidance mid-term objectives for war reserve stocks in Europe are

(DELETED)

Bulk fuel war reserve stockage objective varies from in accordance with Joint Staff recommended planning factors. Theater on-hand averages are: (DELETED)

(DELETED)

The primary problem in meeting these objectives is funding. But I must add that it is important that the defense budget balance funding for readiness, sustainability, modernization and force structure. Though the pace has slowed considerably, this budget continues progress in building critical war reserve stocks.

Supporting Forces

QUESTION: The readiness and availability of support is a problem, in both your commands? Please discuss the specifics of the problem and what short and long term remedies you are recommending to correct the problem?

ANSWER: The majority of division level Combat Support and Combat Service Support (CS/CSS) elements are manned at less than full wartime strength and most corps level and above CS/CSS is provided by Army National Guard and Reserve units. As you know, approximately of the Army Reserve Combat Service Support force structure is unsourced and much of the existing force structure is reported at readiness levels of C-4 or C-5. Approximately (DELETED)

Reported shortfalls relate to personnel, equipment, and training; undocumented shortfalls also exist where units train on equipment different from that in the Active inventory. In the short term, we must increase manning in forward deployed CS/CSS elements. In the long term, we must ensure that Reserve Component CS/CSS elements are sourced, properly equipped and adequately trained.

Question: The readiness and availability of support is a problem in both your commands? Please discuss the specifics of the problem and what short and long term remedies you are recommended to correct the problem?

Answer:

(DELETED)

War Reserve Shortages

QUESTION: General Leland's statement talks about shortages of needed replacement engines, transmissions, aircraft boom assemblies and war reserve spare parts packages. Please provide specific examples of these problems in your command and the current plans to correct them.

ANSWER: Specific examples include

(DELETED) (DELETED)

Progress in filling these and other shortfalls in our war reserve stocks continues, albeit at a much slower pace than a few years ago. We will continue to highlight our critical concerns and shortfalls to the Services and the Department through the PPBS process.

Question: General Leland's statement talks about shortages of needed replacement engines, transmissions, aircraft boom assemblies and war reserve spare parts packages. Please provide specific examples of these problems in your command and the current plans to correct them.

Answer: There are ample amounts of these items in PACAF.

Question: The department made a decision to understaff support units in Europe and thousands of troops would be needed to bring these units up to strength in wartime. At the same time, the reinforcing units are untrained or understrength. How extensive are these problems, what specific numbers are needed to bring the units up to full strength, and is it now time to rethink this philosophy and maybe move to well rounded divisions with all needed components at full strength? Is this also a problem in the Pacific?

Answer: This is not a problem in the Pacific. While we are facing manpower reductions and shortages in some occupational specialties in combat, combat support and combat service support units, overall manning in USPACOM is satisfactory and capable of supporting mission execution.

Reduced O&M Funding

QUESTION: General Leland mentions that reduced O&M funding is resulting in the assignment of troops to base support jobs previously done by contractors. What is the extend of the problem and provide specific examples of how this is impacting upon unit readiness.

ANSWER: Although present projections indicate that approximately 2500 military personnel will be diverted, the full extent of the Borrowed Military Manpower problem is not totally known at this time. We are still adjusting both to reductions in funding and to personnel losses in the base operating functional area resulting from implementation of recommendations of the Vander Schaaf study of the unified and specified commands management headquarters structures. The impact on unit readiness remains also to be assessed fully; obviously, however, when a solider instead of a contract civilian is standing guard at the front gate, that soldier is not training with his unit.

Question: General Leland mentions that reduced O&M funding is resulting in the assignment of troops to base support jobs previously done by contractors. What is the extent of the problem and provide specific examples of how this is impacting upon unit readiness. Do you have the same problem in the Pacific?

Answer: None of our service components has reported this as a significant factor in their operations.

Vander Schaaf Study

Question: The Vander Schaaf Study on the Unified and Specified Commands had recommendations that would affect both your commands, for example, disestablishing the Army Western Command and Naval Forces Europe. Please review recommendations that pertain to your commands and what has happened as a result of the recommendations.

General Leland: Decision was made by SECDEF to retain USNAVEUR.

Question: The Vander Schaaf study on the unified and specified commands has recommendations that would affect both your commands, for example, disestablishing the Army Western Command and Naval Force Europe. Please review the recommendations that pertain to your commands and what has happened as a result of the recommendations.

Answer: The Vander Schaaf study contained 49 recommendations which pertain directly to the U.S. Pacific Command. Many of these recommendations have, as directed by OSD, been implemented. Others not so directed have not been implemented. These include the recommendations to eliminate the Navy components of U.S. Forces Korea and U.S. Forces Japan, to disestablish the U.S. Army Western Command, and to consolidate intelligence manning on Oahu. We are vigorously pursuing any initiatives which strengthen our warfighting capabilities.

Question: Secretary Carlucci mandated that 3,000 positions be eliminated based on the recommendations in the Vander Schaaf Study. How were your commands impacted by these reductions and were the reductions directly related to the study or merely an across-the-board reduction?

General Leland: The reductions were taken consistent with SECDEF guidance that cuts should be associated with the Vander Schaaf Study recommendations as well as other management areas to improve efficiency. The cuts were made within the spirit and intent of the Vander Schaaf Study regarding consolidations and management initiatives that would lead to greater efficiency.

Question: Secretary Carlucci mandated that 3,000 positions be eliminated based on the recommendations in the Vander Schaaf study. How were your commands impacted by these reductions and were the reductions directly related to the study or merely an Across-the-Board Reduction?

Answer: USCINCPAC identified 76 billets for deletion under the SECDEF mandated reductions; this equates to a 3.4% reduction of joint strength in the theater. Although we reviewed possible reductions from all organizations in the theater, the final deletions were identified only after rigorous review of the CINC's warfighting priorities, our peacetime strategy, current and projected workload, and the impact on mission accomplishment.

Our intent, while absorbing these deletions, was to limit the impact on the CINC's command and control of operational forces. Many administrative and support billets were selected for deletion to preserve those billets whose workload is more closely associated to our warfighting mission.

Question: When a delegation of the committee visited the Pacific in January we were basically told that the status of the operations and maintenance account was adequate. However, if further reductions were to be made, this would lead to cannibalization of further shortages in spares. Is this still true?

Answer: The numbers haven't changed much since the visit, so the basic status is still the same. We're still concerned that future readiness is being sacrificed because we've cut back on base operating support and stretched out recurring maintenance schedules in order to support current operations.

Question: What is the status of our relationship with South Korea and why does there seem to be so much discontent and ill feeling towards Americans?

Answer: The status of our security relationship with the Republic of Korea is excellent. The Korean people recognize the deterrent and stability value of the U.S. military presence. The relationship would be stronger in their eyes if based upon a more "equal partner" status to reflect the increase in international status and capability of present day Korea. This is a welcome development and will support the continued move towards democracy in their political system. U.S. and ROK forces are at a high state of readiness and interoperability. Vigilance will still be required as the state of tension along the DMZ remains high.

It is a mistake to attribute instances of anti-Americanism and the discontent of a radical minority to the Korean populace as a whole. What we are seeing is the natural development of a more free society as the Koreans attempt to clear the air on events such as the Kwangju uprising. Anti-Americanism that stems from historical misrepresentations of fact should be patiently corrected with the facts.

Question: It has been reported that the United States and South Korea have agreed in principle to relocate the 8th U.S. Army Headquarters out of Yongsan. What is bringing about this potential move, and what will be the cost to us in terms of dollars and potential readiness factors?

Answer: The movement of U.S. facilities out of the Seoul area involves 12 compounds and the headquarters of United States Forces Korea and Combined Forces Command in addition to 8th Army Headquarters. Many of the staff positions are serving multiple billets for each of the headquarters.

The move out of Seoul was raised with Secretary Carlucci by the President of the Republic of Korea to complement their own plans to move their service headquarters south to the city of Taejon. There are advantages to the relocation since Seoul is a bustling, modern city that over the years has grown around U.S. facilities. The United States has agreed to move our facilities out of Seoul based upon the Republic of Korea funding the relocation, providing alternate facilities built to U.S. standards, and readiness of the commands not being downgraded.

Relocation should be viewed as a long term project. The development of the planning process is just beginning.

Question: I have been concerned for some time that we may not have adequate crude oil on the West Coast to sustain a war in the Pacific. It seems logical to assume in wartime our strategic petroleum reserves in the Gulf of Mexico could not be moved by tanker through the Panama Canal to the West Coast, nor could Alaskan crude be moved South. Tankers would be sitting ducks for enemy submarines. The naval petroleum reserve at Elk Hills is being depleted at the rate of 100,000 barrels per day. In view of these problems, what would be your view about establishing west of the Rockies some form of a strategic reserve of crude oil similar to the strategic petroleum reserves now being filled in the Gulf of Mexico that could be available to supply over a long time our fighting forces in the Pacific?

Answer: Some form of a strategic reserve of crude oil, west of the Rockies, similar to the Strategic Petroleum Reserves (SPR) now being filled in the Gulf of Mexico area would be nice to have, but is not essential to the military. The SPR and the proposed 10 million barrel Defense Petroleum Inventory (DPI), collocated with the SPR in Louisiana and Texas, when coupled with the Defense Production Act, will meet our DoD needs. The DPI is a great proposal because DoD would have direct access to the DPI on short notice. This would replace the maximum of 80,000 barrels/day of oil currently available to DoD from the Naval Petroleum Reserve. The DPI increases military readiness due to its location and drawdown rate (up to 3.3 million barrels per day).

Reductions to JCS Exercise Funding

QUESTION: Do reductions in JCS exercise funds on top of reductions in O&M funds compound training problems? Please explain.

ANSWER: Absolutely. USCINCEUR's exercise program represents a comprehensive attempt to meet theater and component command training goals, objectives and priorities as economically as possible. We are, for example, placing maximum emphasis on relatively inexpensive command field training exercises tailored to meet specific goals and objectives. Reducing both exercise and training budgets will limit our ability to make use of these out-of-theater training opportunities and will reduce the readiness of our forces.

Mr. HUTTO. We thank you very much for being here with us. Thank you.

General PIATAK. Thank you.

Mr. HUTTO. The subcommittee stands adjourned until 9:30 Tuesday morning, March 7.

[Whereupon, at 3:30 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Tuesday, March 7, 1989.]

NAVY/MARINE CORPS O&M

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Tuesday, March 7, 1989.

The subcommittee met, pursuant to notice, at 1:32 p.m., in room 2337, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will please come to order. This afternoon, the subcommittee will continue its consideration of the fiscal years 1990–1991 Department of Defense Operation and Maintenance Budget request with testimony from Navy and Marine Corps witnesses. Even though the testimony we will receive does not reflect the changes associated with President Bush's reductions to the defense budget prepared by the last administration, the basic thrust and areas of emphasis should remain the same.

A close examination of the details of this austere O&M budget request raise a number of serious concerns about the future readiness and well being of Navy and Marine Corps units and personnel. Equally troubling is the realization that the shortfalls we find today are not likely to get any better during the ongoing budget amendment process in the Pentagon or upcoming deliberations on Capitol Hill.

I say this for two reason. First, despite protestations that everyone supports readiness and O&M funding levels, we inevitably find ourselves trapped by the "iron law of outlay reduction." At some point in the process an outlay target is going to be given and outlay rich accounts like O&M are going to have to face additional reductions.

The commitment to readiness seems to evaporate when the choice is to cut $1 of O&M, or $5 of procurement, $8 of shipbuilding, or $3 of RDT&E to generate the same first year outlay savings. This outcome is not fair and it is not wise. But, it appears to be inevitable if outlay cuts remain essential for deficit reduction efforts.

The second reason for my pessimism is the fact that some of the assumptions upon which O&M funding levels are based have been consistently off the mark. Despite vigorous management efforts over the past 5 years, medical cost projections have been underestimated by at least $350 million each year. The same goes for dollar exchange rates overseas. Oil prices continue to be dynamic and who can say whether current DOD projections are accurate?

In addition to the kinds of uncertainty that are difficult to predict, the current DOD request contains a number of assumptions that appear to be politically and operationally suspect. For example, it is unlikely that Congress will give the military a 3.8 percent cost of living increase in fiscal year 1990 and not give civilian employees the same percentage increase. It is also difficult to see how the Navy is going to reduce its commitment in the Persian Gulf area to pre-tanker war operating levels in the next 7 months.

The important thing to keep in mind is that all of these uncertain assumptions generate "must pay" bills during budget execution that must be addressed through funding transfers. Hopefully, other DOD accounts will provide most of the offsets. But, it is unlikely that O&M programs will be spared in the process.

Given this atmosphere of uncertainty, it is instructive to look at the current Navy and Marine Corps O&M request using some of the yardsticks the subcommittee has used in the past.

In 1981, this subcommittee was alarmed over Navy and Marine Corps depot maintenance backlogs of $188.8 million. In fiscal year 1990, the backlog is projected to be $629.6 million.

In 1981, the Readiness Subcommittee was shocked to find that the backlog of maintenance and repair or real property for the Navy and Marine Corps was $564 million. In fiscal year 1990, the backlog is projected to be $2.3 billion.

In 1981, the Subcommittee was concerned that Navy OPTEMPO requirements driven by Indian Ocean operations were being met at the expense of training elsewhere. In fiscal year 1990, the adequacy of Navy OPTEMPO funding is predicated on a rapid decrease of U.S. Naval presence in the Persian Gulf. Otherwise, training or other missions will have to be reduced.

I am not saying these things today are as bad as they were in 1981, or that these comparative numbers may appear worse than they are. But, they do not leave much room for complacency if these trend-lines are permitted to continue. They also tell us that we should not lose sight of the uncertainties and stern realities behind the numbers as we look at the current Navy and Marine Corps request. With this in mind, we look forward to the testimony and the responses to questions of our witnesses today to provide a sound basis for the tough decisions that we will be making in the coming weeks.

Before proceeding I would like to recognize Mr. Dave O'B. Martin for his comments. Mr. Martin.

STATEMENT OF HON. DAVID O'B. MARTIN, A REPRESENTATIVE FROM NEW YORK

Mr. **Martin**. Thank you very much, Mr. Chairman.

Admiral Arthur, there must be a typo here. Eleven Distinguished Flying Crosses?

Admiral **Arthur**. Yes, sir.

Mr. **Martin**. 1-1, 11?

Admiral **Arthur**. No, that is eleven, sir.

Mr. MARTIN. It is a privilege for us to have you here. You have to believe it is a privilege for you to be here as well.

[Laughter.]

Admiral ARTHUR. Yes, sir.

Mr. MARTIN. Welcome. I have been waiting for this forum for some time relative to the readiness of our Navy/Marine Corps team. I brought the question I have up with the CINC's when they were here, particularly CINCPAC, relative to what I note to be a 1.2 percent increase. Is that the correct figure in readiness for the Department of the Navy? Which translates into a 2.2 percent increase in O&M funds for the Navy and 9 percent cut to the Marine Corps. I brought this up in the context of the cut in training funds that the CINC's have, which as they point out are only compounded by the cuts within the various services. I will be asking you gentleman to take as much time as you wish to explain, particularly the General, and I know this was not your idea. But this morning we are talking about a 34 percent cut in Marine Corps military construction.

We laid off three rifle regiments in the last budget. Now we are talking about a 9 percent cut in O&M funds, severe restrictions in training and that kind of thing in this budget and the next budget. How you are going to do all that and still maintain any semblance of readiness in training is going to be my question. But I thought I would offer that up front so that you would have some time to think about it until my time for questioning comes around.

Again, thank you so much for coming here. I look forward to hearing your testimony.

Mr. HUTTO. Thank you, Mr. Martin.

We are pleased to have with us today to discuss the subject of Navy and Marine Corps operation and maintenance Vice Adm. Stanley R. Arthur, the USN, Deputy Chief of Naval Operations for logistics; Lt. Gen. W.G. Carson, Jr., USMC, Deputy Chief of Staff for Installations and Logistics; Rear Adm. Raymond M. Walsh, USN, Director Operations Division, Office of Budget and Reports. Gentleman, we welcome you here. Admiral Arthur we will be delighted to hear your testimony.

STATEMENT OF VICE ADM. STANLEY R. ARTHUR, USN, DEPUTY CHIEF OF NAVAL OPERATIONS, LOGISTICS; ACCOMPANIED BY: REAR ADM. RAYMOND M. WALSH, USN, DIRECTOR, OPERATIONS DIVISION, OFFICE OF BUDGET AND REPORTS

Admiral ARTHUR. Thank you, Mr. Chairman. It is a privilege to again appear before this committee to present an overview of the Navy's fiscal year 1990 and 1991 Operation and Maintenance appropriations. This committee has always represented an effective advocacy for the readiness of the Navy. Mr. Chairman, we look forward to working with you to those same ends again.

I have a prepared statement, which I would like to submit for the record.

Mr. HUTTO. Without objection, your entire statement will be admitted for the record and you may summarize.

PREPARED STATEMENT OF VICE ADM. STANLEY R. ARTHUR, USN

Vice Admiral Stanley R. Arthur
United States Navy

Vice Admiral Stanley R. Arthur was born in San Diego, California, on 27 September 1935. He entered the U.S. Navy through the Navy Reserve Officer Training Corps program at Miami University and was commissioned in June 1957.

Designated a Naval Aviator in 1958, he reported to VS-21 at NAS North Island and in 1960 he became a "Plank Owner" in VS-29. Assigned to the U.S. Naval Postgraduate School in 1962, he was awarded a Bachelor of Science Degree in Aeronautical Engineering in 1964. His next tour of duty was with VX-1 at Key West, Florida, as Weapons Project Officer. He reported to VA-122 as an A-7 instructor pilot and maintenance officer. Additionally, he became the first Officer in Charge of COMFAIRLEMOORE Weapons Training Center.

In July 1971 Commander Arthur reported to VA-164 as Executive Officer and assumed command a year later while deployed onboard USS HANCOCK. During this tour he completed over 500 combat missions in the A-4 Skyhawk. In August 1973 he reported to the Industrial College of the Armed Forces. While there he also attended George Washington University and acquired his Master of Science Degree in Administration. Upon completion he reported to the Bureau of Naval Personnel, where he served as Head of the Aviation Lieutenant Commander and Junior Officer Assignment Branch. He reported onboard USS SAN JOSE as Commanding Officer in July 1976 and to the CNO's Senior Officer Ship Material Readiness Course, Idaho Falls, in January 1978. Captain Arthur assumed command of USS CORAL SEA in June 1978.

In January 1980, Captain Arthur joined the Staff of the Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, for duty as the Fleet Operations Officer and Assistant Chief of Staff for Operations. Selected for Rear Admiral during this tour, he was re-assigned as Assistant Chief of Staff for Plans and Policy with additional duty as Commander rapid Deployment Naval Forces. In January 1983 the U.S. Naval Forces Central Command was established with Rear Admiral Arthur as its first Commander. Rear Admiral Arthur served as Commander Carrier Group SEVEN onboard USS RANGER in July 1983. Rear Admiral Arthur was then ordered to Washington as Director, Aviation Plans and Requirements Division (OP-50) in August 1985. In June 1986 he assumed duties as the Director, General Planning and Programming Division (OP-90).

Selected for the rank of Vice Admiral, he assumed his present duties as Deputy Chief of Naval Operations (Logistics) in February 1988.

Vice Admiral Arthur has been awarded the Legion of Merit with Combat "V" and two gold stars, 11 Distinguished Flying Crosses, the Meritorious Service Medal, 4 individual Air Medals, 47 Strike-Flight Air Medals and additional individual, unit and service awards.

Vice Admiral Arthur is married to the former Jennie Lou Mapes of Jackson, Ohio. They have four children: Erin, Brian, Derek and Brad.

NAVY OPERATION AND MAINTENANCE APPROPRIATIONS

I appreciate the opportunity to appear before you today to discuss the Navy's FY 1990 and FY 1991 budget request for the Operation and Maintenance appropriations.

As a result of the 1987 Budget Summit Agreement, the FY 1988 and FY 1989 topline for Operation and Maintenance was reduced by $2.2 billion and $2.3 billion, respectively, from the original FY 1988/1989 President's Budget. Emergent Persian Gulf operations, combined with severe funding shortfalls rendered the Operation and Maintenance, Navy appropriation unexecutable, resulting in $471.5 million in reprogramming actions to sustain operations through the end of FY 1988. This resulted in a FY 1988 to FY 1989 further program decrease, thus continuing the funding decline from FY 1985.

The current estimate for FY 1989 includes a $394.0 million reprogramming request for readiness related programs and we again ask for your support. However, even with approval of the reprogramming request, FY 1989 remains below FY 1988 when viewed in constant dollars. We have applied the FY 1989 Congressional reductions much the same as FY 1988 -- to avoid increasing risk beyond acceptable levels and to maintain the Navy's capability to meet increasing national commitments. This was accomplished by deferring depot maintenance, logistic and engineering support, maintenance of real property (MRP) projects and other management actions. We cannot, however, continue to let the infrastructure deteriorate to protect "readiness" because these support elements are being degraded to the point that readiness will ultimately be affected.

We fully understand the need to reduce the deficit and balance the federal budget, but as recent experience indicates, the O&M baseline cannot be reduced further and maintain the ability to meet global commitments. The requirements laid on the Navy have not diminished. Changes on the international scene such as our presence in the Persian Gulf have increased our requirements. Currently, there are about 100 ships forward deployed in the Persian Gulf, the Indian Ocean, the Western Pacific and the Mediterranean alone. However, further deterioration of fleet readiness and modernization remains a matter of vital importance given that naval forces continue to be thrust into harm's way.

The same principles used to balance FY 1989 were applied to develop the FY 1990/1991 "Reagan" budget request -- holding risk at acceptable levels and maintaining the ability to meet increasing national commitments and overall, ensuring a balanced program.

Chart 1 compares the FY 1990/1991 request with prior years in terms of FY 1990 constant dollars, as shown below.

CHART 1
OPERATION AND MAINTENANCE, NAVY
(IN MILLIONS OF DOLLARS)

FISCAL YEAR	TOA	90 CONSTANT $
FY 1988	$24,934.4	$27,092.5
FY 1989	25,361.6	26,226.4
FY 1990*	26,490.3	26,490.3
FY 1991*	27,626.0	26,824.3

* Reagan Budget

We have continued to protect readiness as much as possible within fiscal constraints. Accordingly, ship optempo and flying hour estimates in both years are reflective of the Department's readiness goals. The budget request includes some significant changes from the FY 1988/FY 1989 program.

- No additional funds for Persian Gulf operations are included in the budget. Mid-East Force Operations are funded at the level which existed prior to commencement of Persian Gulf convoy operations.
- To reinforce the integrity of the acquisition process, some work currently being performed by contractors is realigned to government personnel.
- Several transfers are reflected to more properly align direct fleet support costs. These include the transfer of funding for Contractor Engineering Technical Services (CETS) and Navy Engineering Technical Services (NETS) from Central Supply and Maintenance to General Purpose Forces.
- FY 1989 deferral actions for Depot Maintenance, MRP and Logistic/Engineering support are restored, although not to previous levels.

However, it was not possible to avoid some degradation of fleet readiness. The backlog of certain types of maintenance will grow, although not to the severe levels of the late '70's. Specifically, the minimum impact which is expected to occur at the requested level of funding is:

- Ship overhaul backlogs increase.
- Aircraft overdue for maintenance increases.
- The mission capable rate for aircraft decreases.

We are acutely aware of the strong competitive demand for the nations limited resources and have based our budget request on a careful and thorough assessment of the most economic and efficient means to achieve our common objectives. The composition of the Navy FY 1990/FY 1991 "Reagan" budget request for Operation and Maintenance is displayed in Chart 2.

CHART 2
APPROPRIATION SUMMARY
(IN MILLIONS OF DOLLARS)

APPN	FY 1988 ACTUAL	FY 1989 ESTIMATE	FY 1990* REQUEST	89/90 CHANGE	FY 1991* REQUEST	90/91 CHANGE
O&M,N	24,934.4	25,361.6	26,490.3	1,128.7	27,626.0	1,135.7
O&M,NR	924.4	976.4	984.4	8.0	1,014.1	29.7
TOTAL	25,858.8	26,338.0	27,474.7	1,136.7	28,640.1	1,165.4

*Reagan Budget

The Operation and Maintenance appropriations finance the day-to-day operating costs of naval forces in the United States and around the world, and support operations which have the most direct and immediate impact on the current readiness of the Navy.

OPERATION AND MAINTENANCE, NAVY

The FY 1990 request of $26,490.3 million and the FY 1991 request of $27,626.0 million will support Navy operating forces including operation and maintenance of ships, aircraft (including Marine Corps aircraft), weapons and support equipment, as well as the total spectrum of ongoing activity within the Navy support establishment, including a 2 percent civilian pay raise in FY 1990 and a 3 percent civilian pay raise in FY 1991.

The Operation and Maintenance, Navy request for the FY 1990/FY 1991 biennial budget is shown in Chart 3. The FY 1990 request totals $26.5 billion, an increase of $1.6 billion over FY 1988 actuals, of which $1.3 billion is for price growth. Similarly, the FY 1991 request is $2.7 billion higher than FY 1988 but includes about $2.3 billion in price growth.

CHART 3
OPERATION AND MAINTENANCE, NAVY
(IN MILLIONS OF DOLLARS)

	FY 1988 ACTUAL	FY 1989 CURRENT ESTIMATE	FY 1990* REQUEST	89/90 CHANGE	FY 1991* REQUEST	90/91 CHANGE
STRATEGIC	1,423.3	1,478.9	1,726.6	247.7	1,851.6	125.0
GEN PUROSE	11,033.1	11,157.5	11,622.2	464.7	11,914.9	292.7
INTEL&COMM	1,047.3	1,078.9	1,165.3	86.4	1,279.0	113.7
AIRL&SEALIFT	520.9	546.5	458.1	-88.4	478.6	20.5
CENT SUPPLY AND MAINT	6,320.3	6,313.7	6,654.2	340.5	7,003.6	349.4
TRNG/MED/ & GEN PERS ACTIVITIES	3,696.0	3,840.2	3,881.9	41.7	4,108.5	226.6
ADMIN	822.2	839.9	882.0	42.1	888.7	6.7
SUPP TO OTHER NATIONS	3.7	3.8	6.4	2.6	6.9	.5
SPEC OPS FORCES	67.6	102.2	93.6	-8.6	94.2	.6
TOTAL	24,934.4	25,361.6	26,490.3	1,128.7	27,626.0	1,135.7

* Reagan Budget

Strategic Forces. The Strategic Forces budget activity provides funds for the Navy's Fleet Ballistic Missile (FBM) Force, including the operating costs of the ballistic missile nuclear submarines, their maintenance and base operations support, weapon systems overhaul, repair and maintenance and fleet support.

The FY 1990/1991 Strategic Forces program increases reflect the delivery of one additional TRIDENT II submarine in both FY 1990 and FY 1991; the initial operating capability (IOC) of the TRIDENT II (D-5) missile in FY 1990 and FY 1991 and the further development of the Submarine Base at King's Bay, Georgia, to support the TRIDENT II submarines and D-5 missile. Additional increases in both fiscal years reflect the upgrade of the Submarine Base at Bangor to support modifications to TRIDENT I submarines. Also in FY 1990, increased funding is required as both TACAMO squadrons begin transition training from the old EC-130 aircraft to the new E-6A aircraft.

General Purpose Forces. The Navy's mission in General Purpose Forces is to provide combat ready fleet forces capable of conducting strike operations and to ensure control of the sea and air in the event of war as well as maintaining a network of shore installations and commands. These forces deploy to the Indian Ocean, Northern, Eastern and Western Pacific, North Atlantic, Central and Eastern Mediterranean, and Caribbean and Central America regions. Both FY 1990 and FY 1991 estimates for Ship and

Aircraft Operations are based on Mid-East Force operating force levels which existed prior to commencement of Persian Gulf convoy operations. Beginning with FY 1989, the Outfitting program previously budgeted under Ship Maintenance and Modernization was transferred to Other Procurement, Navy.

Funding for TACAIR/ASW flying hours in FY 1990 and FY 1991 allows combat aircrews (both Navy and Marine) to maintain proficiency to conduct aircraft operations at 87 percent Primary Mission Readiness (PMR) including two percent in simulators. PMR represents the flying hours necessary to keep the aircrews qualified to perform their primary mission in assigned aircraft and the funded level remains consistent with the FY 1989 program.

Ship operating tempo is funded at a level consistent with the FY 1989 program for both non-deployed and deployed forces. Optempo represents the average operating days a ship spends at sea for work-up, training or for deployment in response to national commitments.

In the ship maintenance program, there is a net decrease of ten overhauls in FY 1990 and an additional decrease of three overhauls in FY 1991. Ship maintenance and modernization funding, however, increases in FY 1990 and FY 1991 due to a change in the mix and type of availabilities. In addition, in FY 1991 the first phase of the refueling overhaul of the USS ENTERPRISE (CVN 65) is budgeted.

Other funding increases are required to support:

- Seven additional Landing Craft Air Cushion (LCAC) craft in FY 1990 and twelve in FY 1991 for Special Combat Support Forces.
- Deployment of the first operational Relocatable Over the Horizon Radar (ROTHR) site at Amchitka, AK, and two additional operational sites in FY 1991.
- Three additional TAGOS ships in FY 1990 and two additional ships in FY 1991.

Funding levels for base operations are constant with the FY 1989 program. The budget request does not include any adjustments associated with proposed base closures.

Intelligence and Communications. The programs in this budget activity provide for collection, analysis and dissemination of intelligence, meteorological and oceanographic data and communications support for the naval community.

The FY 1990 request reflects the decentralization of funding for the Defense Data Network, which is a DOD wide initiative; increased oceanographic initiatives in support of anti-submarine warfare and increased Military Sealift Command per diem ship rates. These rates reflect higher operating costs due to an increase in the number of at-sea days and are associated with operation of more complex equipment.

The FY 1990 request also includes the functional transfer, from Central Supply and Maintenance Activities, of remote sensors supporting physical security to the Naval Security and Investigative Command (NSIC). This functional transfer was initiated to more properly align Department of Navy physical security management responsibilities in recognition of NSIC's designation as program manager for Navy-wide Physical Security.

The FY 1991 request reflects a significant increase to support "LEASAT" satellites. The FY 1991 request also includes the addition of two new oceanographic ships.

Airlift and Sealift. The Strategic Sealift Program is designed to ensure that strategic sealift ships, cargo offload systems and theater logistic systems provide a smooth flow of materials to support combat operations worldwide.

Funding responsibility for maintaining the Ready Reserve Fleet was transferred to the Maritime Administration in the Department of Transportation on 1 October 1988. This responsibility includes all the ancillary costs associated with the management of the Ready Reserve Fleet. Additionally, beginning in FY 1990 funding responsibility for nine Prepositioning Force ships will be transferred, six to the Army and three to the Air Force to align funding responsibility with the user Service.

Central Supply and Maintenance Activities. The programs in this budget activity provide supply, depot maintenance, technical, and other logistic and acquisition management support to the operating forces.

The increases in FY 1990 and FY 1991 reflect the rapidly growing AEGIS fleet and the increasing complexity of AEGIS combat system baselines and depot maintenance funding increases in FY 1990. The budget also reflects funding increases to support additional MK-46 torpedo overhauls, additional installation of previously procured modification kits and interim logistics support for the new MK-48/ADCAP torpedo. Increased funding also reflects the transfer of resources from other appropriations and accounts for the conversion of contracted advisory and assistance services (CAAS) to in-house performance. Additionally, the budget request includes increased funding in FY 1990 for the continuation of supply system ADP modernization efforts, such as the Stock Point ADP Replacement (SPAR) program and Inventory Control Point (ICP) Resolicitation Project. Increases are partially offset by the transfer of Contractor Engineering Technical Support (CETS) and Naval Engineering Technical Support (NETS) funding to General Purpose Forces and the transfer of hazardous waste disposal funding from a central budget account to the hazardous waste generating activities.

The Navy Industrial Fund (NIF) and Navy Stock Fund (NSF) support includes a requirement for the direct payment by O&MN of $450.0/$638.9 million in FY 1990/FY 1991. The funding requirement is being driven by activities not meeting efficiency objectives and higher than anticipated costs for ocean shipping. Competition that had been expected to hold down ocean shipping costs have not materialized, and Military Sealift Command (MSC) shipping is now essentially sole source. Since stabilized rates in prior budget reflected competitive pricing, the NIF has sustained significant losses. The proposed direct payments are necessary to permit the NIF to approach a zero profit/loss position by the end of FY 1991.

Training, Medical and Other General Personnel Activities. The programs in this budget activity provide training and education, health care and related support to Naval personnel.

Total medical program funding is relatively level from FY 1989 to FY 1991 at approximately $2.0 billion. Medical care is provided through Navy hospitals and clinics staffed by military, civilian and contractor personnel, and the CHAMPUS program, which provides access to private sector health care providers for eligible personnel.

The Navy is implementing significant changes in its health care delivery system to achieve the most efficient and effective mix of in-house, contractor, and private sector medical support. The requested level of CHAMPUS funding is based on recently revised usage projections and includes projected savings resulting from various CHAMPUS reform efforts and health care contracting initiatives. These initiatives involve the use of contractor-provided medical services to augment in-house operations of Navy medical facilities. Funding for these contractor initiatives increases by approximately $50 million in FY 1990 and $100 million in FY 1991. This will result in more efficient use of existing Navy hospitals and facilities by ensuring that in-house Navy personnel are devoted to more complex and critical medical services and by reducing reliance on more expensive CHAMPUS support.

General personnel activities include Recruiting and Advertising, Training support and a wide range of morale, welfare and self-improvement programs, including career counseling, alcohol and drug rehabilitation, and off-duty and voluntary education. These are aimed at recruiting and retaining high quality, well-trained personnel. In FY 1990, recruiting and advertising funds provide for additional increased radio and magazine advertising. Additional funding is required to meet quantitative and qualitative recruiting goals during a period when the demographic pool of potential recruits is shrinking.

Training and education programs provide the skills needed by officer and enlisted personnel. Academic training provided by the Naval Academy and NROTC programs is the major source of top quality officers, while the Naval Postgraduate School and Naval War College provide postgraduate education at critical junctures in an officer's career. In the technical training area, firefighting and damage control courses are being expanded and upgraded to reflect lessons learned from the STARK and ROBERTS incidents.

Administration and Associated Activities. The programs in this budget activity include funding for staff offices of the Secretary of the Navy and the Chief of Naval Operations; and provides service-wide support in the financial, legal and personnel areas.

Increases in FY 1990 and FY 1991 are for actual costs for injury compensation payments made under the Federal Employees Compensation Act (FECA), and the transfer of resources for payment to the Federal Building Fund to rent commercially leased space occupied by the Navy.

Support to Other Nations. This budget activity provides funding for the Latin American Cooperation Program, emergency medical travel for certain Navy personnel and their families, the Technology Transfer Program, and the unified commanders' cooperative programs and exercises with friendly nations.

The FY 1990 request reflects an increase for additional humanitarian aid such as disaster support and medical supplies and the expansion of foreign participation in combined exercises. These Title 10 programs are proving to be an effective source of goodwill and military cooperation between the United States and friendly, developing nations.

Special Operations Forces. The Special Operations budget activity provides funding for the Navy's Special Operations Forces (SOF). This program includes operation of seven SEAL Teams, two Swimmer Delivery Vehicle (SDV) Teams, two Special Boat Squadrons, two Special Warfare Groups, Naval Special Warfare Command, Naval Special Warfare Center, and the Navy's portion of the Joint Special Operations Command. Additionally, this budget activity provides for the maintenance of various specialized equipment and facilities used by Naval Special Operations Forces. The FY 1990 and FY 1991 request reflects expansion in the Naval Special Operations Force structure, which is the follow-on to the FY 1989 Congressional increase.

OPERATION AND MAINTENANCE, NAVY RESERVE

Chart 4 provides summary financial data for the Operation and Maintenance, Navy Reserve appropriation.

CHART 4
OPERATION & MAINTENANCE, NAVY RESERVE
(IN MILLIONS OF DOLLARS)

	FY 1988 ACTUAL	FY 1989 CURRENT ESTIMATE	FY 1990* REQUEST	89/90 CHANGE	FY 1991* REQUEST	90/91 CHANGE
MISSION FORCES	561.3	602.4	859.2	256.8	895.9	36.7
AIR RESERVE	307.8	303.5	291.2	-12.3	305.2	14.0
SHIP OPS/ SURFACE SUPPORT	88.9	92.0	93.9	1.9	102.3	8.4
SHIP MAINT/MODERN	157.3	199.3	208.1	8.8	207.8	-.3
BASOPS/OTHER SUPP	.0	.0	182.4	182.4	193.5	11.1
RECRUIT AND ADVERTISING	.0	.0	15.9	15.9	16.7	.8
MAINT/REPAIR OF REAL PROPERTY	.0	.0	49.9	49.9	51.8	1.9
TECHNICAL SUPPORT	7.3	7.6	17.8	10.2	18.5	.7
DEPOT MAINT	121.3	120.4	118.9	-1.5	111.7	-7.2
AIRCRAFT	113.4	110.7	118.9	8.2	111.7	-7.2
TECHNICAL SUPPORT	7.9	9.7	.0	-9.7	.0	.0
OTHER SUPPORT	241.8	253.6	6.3	-247.3	6.5	.2
MGMT HQTRS	6.5	6.2	6.3	.1	6.5	.2
BASOPS/OTHER SUPP	167.3	176.6	.0	-176.6	.0	.0
RECRUIT/ ADVERTISING	14.7	16.8	.0	-16.8	.0	.0
MAINT/REPAIR OF REAL PROPERTY	53.3	54.0	.0	-54.0	.0	.0
TOTAL	924.4	976.4	984.4	8.0	1,014.1	29.7

* Reagan Budget

This appropriation consists of three budget activities: Mission Forces, Depot Maintenance, and Other Support. The FY 1990 and FY 1991 budget requests are $984.4 million and $1,014.1 million respectively. Requested funding includes a proposed 2 percent pay raise for civilian personnel in FY 1990 and 3 percent in FY 1991.

Beginning in FY 1990, Base Operations Support (BOS), Recruiting and Advertising and Maintenance and Repair of Real Property (MRP) funding is realigned from Budget Activity-3 Other Support, and Contractor Engineering Technical Services (CETS) funding is realigned from Budget Activity-2 Depot Maintenance, to Budget Activity-1. This transfer aligns the funding with the forces supported, streamlines fund allocation and reporting and creates an appropriation structure similar to that of the Operation and Maintenance, Navy appropriation.

Mission Forces. In FY 1990 and FY 1991, Mission Forces will support the Department's goals for ship operating tempo of 21 days per quarter and Naval Air Reserve PMR of 87 percent. Also included is funding for intermediate and depot level maintenance and modernization of Naval Reserve ships and equipment, operation of Special Combat and Special Operations Forces and operational support to Naval Reserve Force ships.

Depot Maintenance. The Depot Maintenance budget activity provides for the Reserve aircraft rework program. The aircraft rework effort increases in FY 1990 due to increasing aircraft inventory levels and rework of aircraft that were deferred in prior years.

Other Support. The realignment of the BOS, MRP, Recruiting and Advertising activities to Mission Forces results in only Reserve Management Headquarters remaining in Other Support. Management Headquarters funding supports the operation of the Director of Naval Reserve and the Commander, Naval Reserve Force headquarters in New Orleans, LA, and remains basically level in both FY 1990 and FY 1991.

READINESS INDICATORS

This section contains selected readiness data on aircraft and ship operations, ship maintenance and aircraft rework.

The aircraft flying hour program data as reflected in Chart 5 shows Primary Mission Readiness (PMR) at the Department of the Navy goal of 87 percent in FY 1990 and FY 1991, which is level with the FY 1989 program. The program reflects aircrew manning at 100 percent for Marine Corps squadrons, while Navy squadron manning is at 95 percent in FY 1989 through FY 1991. The FY 1990 program provides for the transition of one AV-8B, six F/A-18 and two SH-60 squadrons. The FY 1991 program provides for the transition of one AV-8B, four F/A-18 and two SH-60 squadrons. The FY 1990 and FY 1991 programs support thirteen deployable carrier airwings, three Marine Corps airwings, and aviation components of the 1st Marine Amphibious Brigade.

CHART 5
AIRCRAFT - FLYING HOUR PROGRAM

ACTIVE FORCES	FY 1988	FY 1989	FY 1990*	FY 1991*
PRIMARY MISSION READINESS (%)1/	84	87	87	87
FLEET READINESS SQUADRONS (%)	100	100	100	100
FLEET SUPPORT (%)	86	86	86	86
RESERVE FORCES				
HOURS PER PILOT PER YEAR	121	121	121	121

* Reagan Budget

1/ Includes two percent simulator contribution

Ship operations data is shown in Chart 6 and reflects funding of the Department's goals for deployed and non-deployed coverage continuing as in FY 1989, with Carrier battlegroups deploying in world-wide operating areas.

CHART 6
SHIPS - STEAMING DAYS PER QUARTER

	FY 1988	FY 1989	FY 1990*	FY 1991*
ACTIVE FORCES				
DEPLOYED	53.3	50.5	50.5	50.5
NON-DEPLOYED	26.5	29.0	29.0	29.0
RESERVE FORCES	21.0	21.0	21.0	21.0

* Reagan Budget

Ship maintenance funding increases in FY 1990 and FY 1991, although the total number of availabilities decreases due to the change in the mix and type of availabilities. The ship maintenance program reflects a net decrease of ten overhauls from FY 1989 to FY 1990 and a net decrease of three overhauls from FY 1990 to FY 1991. The FY 1990 program includes a regular carrier overhaul while the FY 1991 program includes a refueling overhaul for USS ENTERPRISE (CVN-65). Selected Restricted Availabilities (SRAs)/Phased Maintenance Availabilities (PMAs)/Submarine Depot Modernization Periods (DMPs) increase by five in FY 1990 and decrease by twenty-six in FY 1991 as funding constraints force the deferral of short-term availabilities. Strategic homeporting initiatives beginning in FY 1990 increase Intermediate Maintenance Activity (IMA) workloads in FY 1990 and FY 1991. Increases in funding for ship inactivations in FY 1990 and FY 1991 are due to five additional inactivations and a more expensive mix of ships. Additionally, in FY 1989 the funding for the procurement of initial outfitting spares transferred to Other Procurement Navy and funding for Planning and Estimating for Repairs and Alterations (PERA) transferred within O&M,N from Central Supply and Maintenance to Ship Maintenance and Modernization under Technical Support.

CHART 7
SHIP MAINTENANCE
(IN MILLIONS OF DOLLARS)

	FY 1988	FY 1989	FY 1990*	FY 1991*
ACTIVE FORCES				
SHIP MAINTENANCE				
SHIP DEPOT LEVEL REPAIR	2,617.5	2,923.4	3,412.5	3,520.6
DEPOT LEVEL SUPPORT	161.7	173.8	193.7	199.9
IMA	348.6	359.4	371.2	423.1
MODERNIZATION	959.4	1,101.0	1,034.6	1,047.6
OUTFITTING	323.0	--	--	--
INACTIVATIONS	100.3	107.5	194.1	185.0
TOTAL SHIP MAINT & MODERNIZATION	4,510.5	4,665.1	5,206.1	5,376.2
NO. OF SHIP OVERHAULS (UNITS)	22	25	15	12
SHIP OVERHAUL BACKLOG (UNITS) 1/	4	3	4	5
# OF DMPs (UNITS)	-	5	4	4
# OF SRAs (UNITS)	87	82	91	81
# OF PMAs (UNITS)	64	62	59	43

* Reagan Budget

1/ The total overhaul backlog includes 3 ships in FY 1988, 2 ships in both FY 1989 and FY 1990, and 1 ship in FY 1991 which are backlogged due to a lack of fleet modernization program (FMP) funding.

Total aircraft rework funding remains fairly constant over the period with slight fluctuations from year-to-year in the different categories of maintenance. Airframe rework funding increases in FY 1990 to reduce the growing backlog of aircraft overdue for maintenance. The growth in the FY 1991 backlog is due to the carryover of the FY 1990 backlog and increased requirements projected by the Aircraft Service Period Adjustment (ASPA) model.

Engine rework funding decreases from the FY 1989 level which is high as a result of a congressional increase to reduce the backlog. The engine availability position is projected to decrease from the 97 percent level achieved in FY 1988 due to increasing engine rework backlogs. Modification installation funding increases reflect the attempt to counter the significant funding decreases in FY 1989, and to install necessary modification kits which have already been procured.

The readiness indicator used for aircraft material readiness is the Mission Capable (MC) rate. The goal for this rate is 73 percent, which was achieved in FY 1988. Mission capability related funding decreases each year from FY 1988 to FY 1991, causing the decrease of one percent per year in the MC rate. Engine rework funding, which is the most significant factor used in the calculation of MC, decreased from FY 1988 to FY 1991. Additional factors which result in the MC decrease are funding decreases in initial spares and aviation depot level repairables.

CHART 8
ACTIVE FORCES AIRCRAFT REWORK
(IN MILLIONS OF DOLLARS)

	FY 1988	FY 1989	FY 1990*	FY 1991*
AIRFRAMES	392.1	388.1	442.9	442.3
ENGINES	216.0	259.8	218.2	206.0
COMPONENTS	53.6	63.8	65.9	66.0
MOD INSTALLATIONS	344.4	291.9	307.2	327.7
SUPPORT SERVICES	26.6	28.6	24.5	24.6
TOTAL	1,032.7	1,032.2	1,058.7	1,066.6
AIRCRAFT OVERDUE FOR MAINTENANCE	16	19	21	45
ENGINE AVAILABILITY (%)	97.1	96.9	94.3	91.3
MISSION CAPABLE RATE (%)	73	72	71	70

* Reagan Budget

CIVILIAN MANPOWER

Civilian manpower comprises a vital segment of the Department of the Navy's manpower resources with the majority being directly related to our readiness posture. End-strength levels for DON civilians are shown below in Chart 9.

CHART 9
CIVILIAN MANPOWER SUMMARY

	FY 1988	FY 1989	FY 1990*	FY 1991*
NAVY	326,511	323,669	317,919	316,400
MARINE CORPS	21,301	21,764	21,659	21,624
TOTAL	347,812	345,433	339,578	338,024

* Reagan Budget

The civilian estimates represent the manpower levels required to execute funded program and reflect a continued effort to contain personnel costs. Despite the declining manpower levels the Department's programs have been structured to assure responsible execution. Within the constrained fiscal environment, the Department will continue to rigorously manage civilian employment as a cost linked to authorized program.

The FY 1990/1991 end year estimates each represent a decline from the previous year's estimate. Included in the overall year-to-year changes are a number of adjustments and realignments based on planned efficiencies and in response to program considerations.

The manpower estimates incorporate adjustments to reflect the results of completed Commercial Activities Studies and in conformance with Executive Order 12615, they also reflect projected study savings. These projected savings, which total 3,640 in FY 1990 and 1,751 in FY 1991, have been calculated by applying recent actual conversion factors to the announced study populations. All positions in the commercial activities inventory and subject to review under OMB Circular A-76 will be studied by the end of FY 1990, although some review recommendations will not be implemented until FY 1991. Consistent with OSD guidance to incentives the Efficiency Review Program, the Department's estimates do not reflect projected efficiency review savings. As our newly structured efficiency program achieves actual savings, resources will be adjusted in the following years. The Commercial Activities adjustments represent a change in the way work is accomplished and are not related to funded program levels.

This budget submission reflects a change in the way we support our program management and execution process by moving effort out of contracted advisory and assistance services and into the acquisition commands. This action was deemed necessary as a result of examinations by the Naval Investigative Service and the Navy Inspector General which showed that the level of contract support in acquisition organizations represented an unacceptable risk to the integrity of the acquisition process. Manpower to perform basic governmental functions, including activities of a policy-making or managerial nature, must be maintained in-house. Particularly sensitive functions are acquisition planning, preparation of justification and approvals, procurement requests, source selection plans, requests for proposals and the source selection process itself. Our estimates reflect a realignment of funding and personnel increments of 238 end strength in FY 1989, 975 end strength in FY 1990, 1,719 end strength in FY 1991. This conversion to in-house performance will be made at no net increase in cost.

Other major adjustments in FY 1990, including a decline in Naval shipyard employment, are attributable to changes in funded workload. Workload driven staffing increases will occur at the Naval Aviation Depots and Air Research Laboratories. Additional manning is also necessary to support strategic homeporting, medical and education initiatives in FY 1990.

In FY 1991 workload driven reductions will occur at Naval Shipyards, Naval Aviation Depots, and Public Works Centers. An increase for the strategic homeporting initiative is also included in the FY 1991 estimates.

It should be recognized that a majority of the civilian employees of the Department of the Navy are directly related to our readiness posture. Over half of the civilians work in industrial fund activities, which are primarily engaged in depot level maintenance and repair of ships, aircraft and associated equipment. Many of the civilians employed at operation and maintenance activities such as supply centers, ship repair facilities, and Naval and Marine Corps air stations and bases contribute directly to operational readiness. The balance of the civilians provide essential support in functions such as training, medical facilities, and the engineering, development and acquisition of weapons systems, which have a definite, although long range, impact on readiness.

I appreciate this opportunity to describe the Department's Operation and Maintenance budget request. We seek your continued support.

Admiral **Arthur**. Thank you, sir. I would just like to take a few minutes to provide a few introductory remarks to summarize my statement and to give you an overview of our efforts to maintain readiness.

When the 1990-91 budget request was submitted to Congress in January of this year, former Secretary of Defense Carlucci stated that the priorities in the budget request are, "quality people and in readiness." This request is an attempt to steer a sustainable and fiscally responsible course that ensures our national security.

The Secretary of the Navy has stated that our aim is to maximize the deterrent and combat capability of our forces with prudent investment and careful management. This budget stresses readiness and sustainability, as it has for the past several years. The funds to maintain Navy readiness are primarily in these appropriations.

As a result of the 1987 Budget Summit Agreement, the fiscal year 1988 and fiscal year 1989 topline for O&M was reduced by $2.2 billion and $2.3 billion respectively from our original fiscal year 1988/1989 President's budget. Emergent Persian Gulf operations combined with severe funding shortfalls rendered the O&M Navy appropriation unexecutable, resulting in $471.5 million in reprogramming actions to sustain operations through the end of fiscal year 1988. This resulted in a fiscal year 1988-1989 further program decrease, thus continuing the decline from 1985.

The current estimate for fiscal year 1989 includes a $400 million reprogramming request for readiness related programs. We again ask your support. We have applied the fiscal year 1989 Congressional reductions much the same as in fiscal year 1988 to avoid increasing risk beyond acceptable levels and to maintain the Navy's capability to meet increasing national commitments. This was accomplished by deferring logistics and engineering support, MRP projects and other management actions.

We were also required to make further adjustments when several congressional reductions directed toward the industrial and stock funds were applied to the O&M account. This compounded an already difficult problem.

We feel that we cannot continue to let the infrastructure deteriorate to protect direct readiness, because these support elements are being degraded to the point that overall readiness is being affected. Fleet readiness, modernization, engineering and logistic support must remain in balance as a matter of vital importance, given that our Navy forces continue to be thrust into harms way.

The same principles used to balance the 1988-1989 were applied to develop the fiscal year 1990-1991 budget request. A balanced program, holding risk at acceptable levels and maintaining the ability to meet increasing national commitments for the fiscal year 1990-1991 biennial budget request for O&M Navy restores the account almost back to the fiscal year 1988 execution level. By fiscal year 1991 we are back to fiscal year 1988 in constant dollars.

We have prepared a budget which maintains readiness within constrained resources and at an acceptable level of risk. We have maintained ship steaming days and aircraft flying hours at the minimum levels required for training. We have been able to do this while restoring some level of other support by continuing efficiencies we have been working for several years. For example, we told you of our efforts to increase competition for spare parts.

We have succeeded in our conscious attempt to field systems with lower operation and support costs than the systems they replace. For example, gas turbine ships with higher reliability and easier maintenance are a growing proportion of the fleet.

Modernization of the fleet infrastructure when economical is a prudent course of action even in periods of austere funding. The average price of a spare part in the Navy supply system would be the equivalent of 37 percent lower in fiscal year 1990 than it was in fiscal year 1985. Navy stock fund prices continue to decline in both fiscal year 1990 and 1991.

To reinforce the integrity of the acquisition process, we will reduce the amount of contractor support and perform more work with Government personnel.

The budget request includes some significant changes from the fiscal year 1988 and fiscal year 1989 program. No additional funds for Persian Gulf operations are included in the budget. Mideast force level operations are funded at the level which existed prior to the commencement of the Persian Gulf convoy operations. Several transfers are reflected to more properly align direct fleet support costs. These include the transfer of funding for Contractor Engineering Technical Services (CETS) and Navy Engineering Technical Service (NETS), from Central Supply and Maintenance to General Purpose Forces. Fiscal year 1989 deferred programs for modernization, MRP and logistics and engineering support are restored, although not to the previous levels.

However, it has not been possible to avoid some degradation of fleet readiness. For example, the backlog of certain types of maintenance will grow, although not to the severe levels of the late 1970's. Maintenance of real property has not been budgeted at the levels we would like. Specifically, the impact which is expected to occur at the requested level of funding is: ship overhaul backlogs increase from three in fiscal year 1989 to five by fiscal year 1991 due to a lack of O&MN overhaul funding. Aircraft and engine maintenance backlogs increase but are at manageable levels. Mission capable rate for aircraft is projected to go down by 1 percent in each year, but remain at or above the 70 percent goal. Base operations funding remains relatively level. Therefore, local base and air station commanders will face a challenge in operating their bases at a lower cost without impairing mission readiness.

The net result is that we have preserved direct readiness programs, but there is still some carryover from 1989 and consequently a higher degree of risk than in previous years in our ability to accomplish the task.

You can help us in several ways. We request early approval of the proposed fiscal year 1989 reprogramming action. Equally important is that you consider for fiscal year 1990 and 1991 minimizing restrictions limiting the use of authorized funds. Raising the reprogramming threshold from $5 million to $10 million certainly has helped, but limiting the use of floors and caps will provide the greatest flexibility to address emergent problems as they occur. Finally, when adjustments to revolving accounts such as the stock fund or the industrial fund are considered necessary, all appropriations, not just O&M, should be reviewed. For example, about half of the revenues for the industrial fund come from outside the Operation and Maintenance, Navy appropriation. A goodly part come from outside of the Navy. When adjustments are made just to O&MN, it becomes a double reduction.

Although not an O&M issue per se, I would like to address another component of the readiness equation and solicit your support. The Asset Capitalization Program (ACP) is essential to fleet readiness because it is a critical element in our Navy industrial infrastructure. It provides the resources needed to execute our industrial capital investment strategy determining the future performance capabilities and capacities of Navy industrial activities.

As a result of the GAO and internal reviews, aggressive action has been taken to improve the management of the ACP. Flawless execution of the program has a high priority at every level.

Current and projected authorization levels are insufficient to meet our capital investment requirements. They are being forced to defer projects which will facilitate Total Quality Management initiatives and yield productivity increases. The current authority levels, if continued, will quickly return Navy industrial activities to the sub-standard obsolete conditions of the late 1970's and early 1980's. Fleet readiness will be negatively impacted because ships and aircraft will not be able to receive the maintenance support that is only provided at the industrial level. Your strong support of ACP is sought.

I hope this introduction gives you some idea of our efforts to maintain our warfighting capability as well as the risk we face in achieving our goals at these reduced funding levels. Rear-Admiral Walsh, the Director of the Operations Division in our Budget Office and I are available to answer any questions you may have on our budget submission. Thank you.

Mr. Hutto. All right, sir. Thank you, Admiral Arthur.

Admiral Walsh, do you have a statement? OK.

General Carson, we are ready for your statement now, sir.

STATEMENT OF LT. GEN. W.G. CARSON, JR., USMC, DEPUTY CHIEF OF STAFF, INSTALLATIONS AND LOGISTICS.

General Carson. Mr. Chairman, I too am privileged to appear before the committee and present the Marine Corps' Operation and Maintenance budget. I have prepared a statement for the record. With your concurrence, I will keep my opening statement short.

Mr. Hutto. Without objection.

General Carson. Thanks to your support we have modernized and enhanced our capabilities in readiness during this decade. Our task now is to maintain that posture in a period of belt-tightening. We believe that we can do that with this request before you.

When we were building our program an early on priority decision was made to support and fully support force structure. As a result, hard choices had to be made on how and where to withstand the TOA reductions and how to divide that remaining TOA pie after fully supporting manpower. As a result, in real terms, the O&M funding decreased 9 percent from 1989 to 1990. 1991 is essentially level with 1990. So consequently, I present to you a most austere bare-bones O&M budget.

Now, we have made some rather significant changes in the Marine Corps. Reorganizations of units both supporting and in the Fleet Marine Force will place some active forces in the Reserves, modified to some extent our training. All of these changes have resulted in some conservation of dollars.

But in spite of these changes, we realize that this bare- bones budget is not without risk. The backlog in depot maintenance will grow. The backlog in real property maintenance will grow. But in the short term, with emphasis on short term, we believe this is an acceptable risk.

We will have to monitor our execution and readiness closely. We may have to make some mid-course adjustments in our O&M execution. But in summary, Mr. Chairman, we believe that this budget will provide for the recruiting, training and retention of quality Marines and support of their families. Provide for the unit's skills, integrity and cohesiveness to deploy and then employ disciplined and effective combat units, trained and ready to meet any mission. Provide for the operation and support of our bases and stations and maintain efficient mission support facilities and support the quality of life of our Marines and their families. Enable us to fully respond to the needs of the unified commanders to whom our fleet Marines are assigned for contingencies and war-time planning.

Again I emphasize it is an austere and bare-bones budget.

Thank you, Mr. Chairman. I am now prepared for questions.

PREPARED STATEMENT OF LT. GEN. W. G. CARSON, JR.

INTRODUCTION

Mr. Chairman and members of the Committee, it is my privilege to appear before you to present the Marine Corps' fiscal years 1990 and 1991 operation and maintenance budget request.

I would first like to express the Marine Corps' appreciation to the members of this Committee and to the Congress for supporting our efforts to modernize and enhance our military capability and readiness. You have enabled us to develop the competence and power projection to be the force in readiness across the spectrum of conflict. We look forward to your continued support to ensure that we are able to maintain that posture.

I would like to clarify before starting that all of the budget figures which I will be covering today are from President Reagan's budget submission. We are presenting to you an austere request. We recognize the significant fiscal demands that we are facing, challenging us to rise to the occasion and maintain the high state of readiness you expect of your Marine Corps. Because we have spent our money wisely we are in a better position to deal with the fiscal constraints. Our Commandant has stated, it is his intention to do everything possible to provide this Nation with the best led, best equipped, best trained, and best disciplined fighting force on earth.

Last year, we outlined some initiatives we were undertaking to realign some functions and reduce the headquarters bureaucracies. We have now completed these changes. At Quantico, Virginia we have created the Marine Corps Combat Development Command (MCCDC), formed from the reorganization of the Marine Corps Development and Education Command. This command develops Marine Corps concepts, plans, and doctrine; identifies, develops and implements policy and programs for education and training of all regular and reserve Marine Corps personnel; and exercises cognizance over Marine Corps wargaming.

Also, we combined elements of the Research, Development and Studies (RD&S) Division and the Materiel Acquisition function previously at Headquarters in Washington with the Development Center at Quantico and formed the Marine Corps Research, Development and Acquisition Command (MCRDAC). Using streamlined acquisition methods, this command takes the materiel requirements and/or deficiencies identified by the Marine Corps Combat Development Command and translates them into cost-effective weapons and equipment. The activation of the Marine Corps Research, Development and Acquisition Command is a significant step forward in the way we develop, procure and support equipment for our fighting forces.

The improvements that we have effected are not limited to the equipment, training, operation, and tactical excellence of the Fleet Marine Forces. We have also improved our facilities, and provided the quality of life we believe our Marines and their dependents deserve. This budget is minimal to maintain the quality of these Marine Corps facilities.

THE FLEET MARINE FORCES

Over the past year and a half we have taken a hard look at our structure and our training programs to ensure that we are placing a strong emphasis on those areas of conflict that we anticipate. The goal has been to produce a warfighting machine that is balanced and that represents the Corps' complete capability. As a result we have made some structure changes that will provide the right mix of resources in the active forces to enable us to respond quickly and effectively to the most likely scenarios. We are confident that we have the capability in our Marine Expeditionary Forces to respond to the total spectrum of conflict. In doing so, we have taken care to maintain the proper balance among ground combat, aviation combat and combat service support components of the active and reserves forces to maintain the unique integrated and self-sustaining abilities of our Marine Air-Ground Task Forces. We stand ready to go tonight with our forward deployed forces and our two CONUS-based Marine Expeditionary Forces.

The Commandant has directed the Commanding General of the Marine Corps Combat Development Command, Quantico, Va. to develop a Marine Air-Ground Task Force Master Plan. This plan will become the cornerstone of the Marine Corps programming process. The identification of Fleet Marine Force requirements, research and development studies and priorities and translation of mid range objectives into an integrated Marine Corps Air-Ground Task Force outlook are some of the key programming elements to be included in the plan.

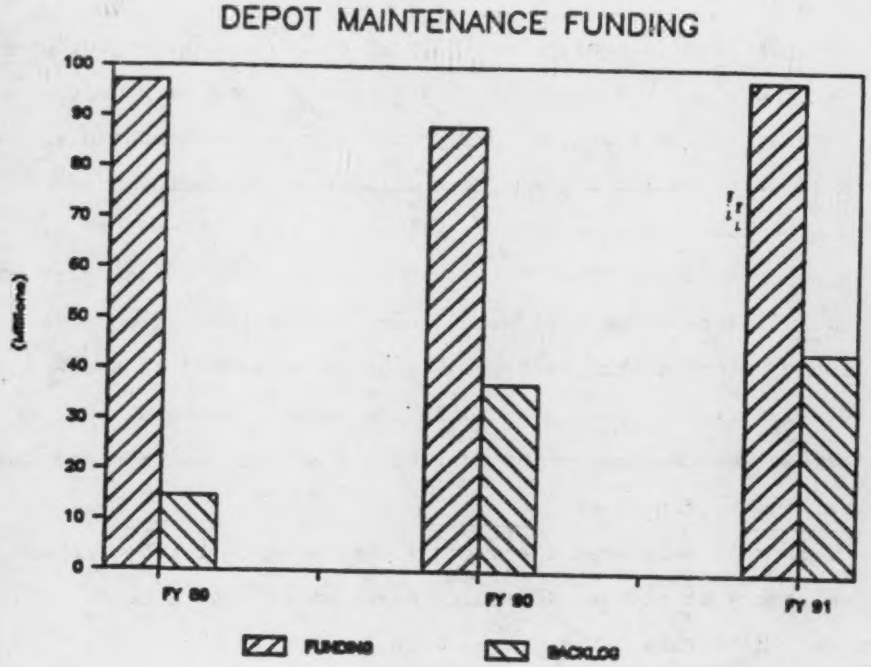
The austere times that we face have caused us to make some tough decisions concerning the intensity and number of exercises that we can participate in during fiscal years 1990/1991. However, we will increase our support of the JCS directed exercises, while reducing the total number of exercises. At the same time we will emphasize more small unit and individual training. We will realize savings and at the same time concentrate on small unit skills that are necessary for low and mid intensity conflict. Although we have decreased the overall number of exercises, we have increased the number of battalion field training days. We are consolidating exercises that are similar in nature and attempting to get our Marines in the field as much as possible.

CENTRAL SUPPLY AND MAINTENANCE

Central Supply and Maintenance contains the essential functions that will allow us to maintain the readiness and sustainability that has come with the recent significant investment in new weapons and equipment. Not only do we provide the supply support and depot level maintenance for the everyday operation of the Fleet Marine Forces but also for the maintenance of weapons and equipment for our Maritime and Geographic Prepositioning Programs. Also funded under this program is the transportation of material to and from the Marine Corps Logistics Bases, for Fleet Marine Force exercises, and in support of the prepositioning programs.

The critical elements that support our Fleet Marine Forces are our two Logistics Bases at Albany, Georgia and Barstow, California. These bases not only provide depot maintenance and material distribution systems, but Integrated Logistics Support for our weapons and equipment is also located at Albany. To improve support to the Fleet Marine Forces, during the past year we have consolidated some management functions at the Logistic Base at Albany, Georgia that were previously accomplished at Headquarters, Marine Corps or the Logistics Bases. We think that we will effect better management over both the depot maintenance and central supply functions.

Equipment maintenance and modification support is performed predominately at the two logistics bases at Albany, Georgia and Barstow, California. The decrease in funding in support of equipment maintenance and modification will increase our unfunded backlog even considering the reduction in exercises. Because these maintenance activities are in direct support of the Fleet Marine Forces, we do not want to continue this trend over a long period which would detract from our readiness. Below is a graph of the funding for the equipment maintenance and the anticipated unfunded backlog.



TRAINING AND EDUCATION

This budget supports the Commandant's number one initiative, which is Marine Battle Skills Training. This program will ensure that every Marine receives the necessary training to operate in a combat environment and win. In addition to modifying recruit training to include more field training, it provides that every Marine, upon completion of recruit training, will be sent to one of the schools of infantry for comprehensive training in small unit and individual infantry skills. This program also includes training at the Noncommissioned Officer schools and academies to ensure that Marines in leadership positions maintain their warfighting skills as well. The FY 1990/1991 Operation and Maintenance Budget reflects the continued implementation of this training program throughout the Marine Corps.

RECRUITING

An effective recruiting process is required to maintain the quality Marines needed to accomplish the demanding missions that may be assigned. We have continued to enjoy success in our recruiting efforts with 95.1 percent of our first time enlistees being high school graduates for fiscal year 1988. With the decrease in the pool of qualified military available recruits, the attainment of these high quality recruits will be an ever increasing challenge. The level of funding we are requesting for recruiting and advertising will support our efforts in this area.

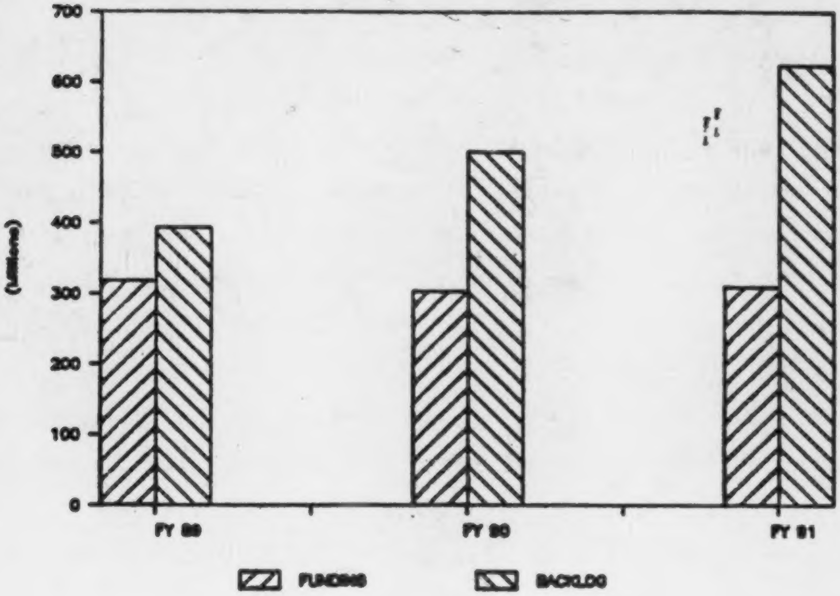
BASE OPERATIONS

In order to ensure that our Fleet Marine Forces are ready, it is essential that we have a supporting establishment that provides for the housing, feeding, training ranges/areas and other essential facilities and services to support our operational and training requirements while enhancing the welfare of our Marines and their dependents. Maintaining this infrastructure is critical to an acceptable quality-of-life and adequate and efficient working and training conditions.

Earlier, I discussed that we are developing a Marine Air-Ground Task Force Master Plan to support the Operating Forces. As a necessary complement to that plan, we are developing a similar plan for our supporting establishment, the Supporting Establishment Master Plan. This will be a comprehensive document that will list by priority all the activities, functions and services to support the training and readiness of the Fleet Marine Forces.

In Maintenance of Real Property we have reduced our funding for FY 1990/1991 which reflects the shrinking of resources available during the budget years. We recognize that the backlog will grow during this period. The following chart indicates the funding that is budgeted and the projected backlog that will occur.

MAINTENANCE OF REAL PROPERTY FUNDING



It is essential that we manage these resources in an effective and efficient manner to make sure that the most critical projects are accomplished. We must also address those requirements that will have the greatest impact on minimizing the growth of the Maintenance of Real Property Backlog.

SUMMARY

As I said up front, the budget request that we have presented is an austere one. We have emphasized the need to maintain the investment that you have been instrumental in helping us attain over the past several years. We are confident that initiatives such as Marine Battle Skills Training, the Marine Air-Ground Task Force Master Plan, and the Supporting Establishment Master Plan will provide the responsive Marine Corps that this country expects.

We will continue to provide our Marines and their dependents the quality of life that they expect and deserve while furthering the quality and intensity of training to ensure the Marine Corps can carry out any mission assigned. The funds that we have requested will allow us to do this.

We believe that this budget will:

Provide for the recruiting, training and retention of quality Marines and the support to their families.

Provide for the unit skills, integrity, and cohesiveness to deploy and then employ, disciplined and effective combat units, trained and ready to meet any mission.

Provide for the operation and support of our bases and stations, maintain efficient mission support facilities, and support the quality of life our Marines and their families deserve.

Enable us to organize and manage efficiently, utilizing improvements in technology, to meet the challenges of today's combat environment.

Enable us to fully respond to the needs of the Unified Commanders to whom our Fleet Marines are assigned for contingencies and wartime planning.

We think this is a bare bones budget. We have balanced the necessity to maintain our combat readiness and warfighting skills and at the same time protect the investment that the American people have made in their Marine Corps over the last several years. We solicit your continued support in providing a Marine Corps that is fully capable of meeting its responsibilities in the defense of our Nation.

Mr. Hutto. Thank you, sir. General Carson, looking over the Department of the Navy O&M budget request, one is struck by the fact that the Navy request shows a slight increase over last year. But, the Marine Corps request reflects a 9 percent real growth reduction. It appears to some of us that either the Marine Corps was victimized during the Department of the Navy budget process or that this represents a ploy to get Congress to provide more money for the Marine Corps. How do you explain this significant reduction in Marine Corps O&M real growth?

General Carson. Well, it is certainly no ploy. When the Marine Corps was assigned its TOA, and as I said in my opening remarks, we made a conscious decision to fully support manpower. The Marine Corps is manpower intensive. When we supported manpower, approximately 62 percent of the TOA was required. That did not leave much of the pie left. In splitting up that pie all of the other appropriations did take the hit. As Congressman Martin mentioned, military construction and procurement Marine Corps took a similar 9 percent decrease.

Mr. Hutto. As one of the glaring aspects of the current Marine Corps O&M budget request is the reduction of the major exercises by 50 percent. Yet in your testimony you seemed to be saying that the primary reason for this reduction in major exercises is the fact that the Marine Corps is changing its training strategy to be more relevant, equally effective, but less costly. Could you expand on the less costly but equally effective training techniques that you are adopting?

General Carson. I believe that the JCS directed exercises in fact increased by one or two. The overall major exercises are decreasing while actual training days will increase. The difference being that we will emphasize more individual and small unit type training. That type of training is very necessary and in fact enhances your capability in low and mid-intensity type conflicts.

Another aspect of this is we are going to do more training closer to home. We believe that we will not be sacrificing any enhancements to training by training closer to home at our own bases, rather than going up the road to train in similar terrain that we have in fact at Camp Lejeune, like Camp Pickett.

Mr. Hutto. Admiral Arthur, there seems to be a difference between the Navy leadership and the Naval shipyard officials on the issue of Core workload and Core workforce requirements. As I understand it, Core workload is the number and type of ships needed by the shipyards in order to retain their capabilities and skills mix to support their overhaul and repair mission. Core workforce requirements are the number of people and skill mix needed to meet mobilization requirements.

Shipyard officials have generally stated that they do not know their Core workload requirements. The Navy leadership, however, has established Core workforce requirements for the shipyards. If the Core workload requirements have not been established for the public shipyards, how can the Navy assure each shipyard's state of readiness and mission capability?

Admiral Arthur. Mr. Chairman, that is a very complex question. Shipyards, of course, represent a contingency base for us. So for mobilization there is a certain level of workload or at least manpower that we would like to see associated with those shipyards for mobilization.

In an era of constrained resources, however, there has to be a trade-off in what you can afford to keep ready for mobilization and the type of workload that you can provide those shipyards. We are very actively involved in developing a long range program where we can accurately project what that workload should be. However, we are also involved, as you know, with a public/private competition, directed by Congress, which makes us move that workload depending on how successful the shipyards can bid for those jobs.

A case in point is the recent direction for new threat upgrades and specifically U.S.S. *Halsey*. We had originally planned the workload for a public yard and were directed to compete with a private yard. So, we still have some systemic problems that keep us from completely definitizing the workload for the shipyards.

Mr. HUTTO. All right, sir. Thank you.

Mr. Martin.

Mr. MARTIN. Thank you very much, Mr. Chairman.

General, that figure sometimes is not emphasized enough, that 62 percent of your budget that relates to personnel. I think the next service is something in the order of 35 percent, which is the Army.

You talked about the overall Marine Corps cuts this year, some of it relating to taking active forces and placing them in the Reserves. (A), How is that going to affect your readiness? (B), What kind numbers are we talking about? Are you talking about doing another end strength cut in this budget?

General CARSON. No, we are not talking about an end strength cut. Let me address the readiness issue first. We are taking across the board—or I should not say across the board. We are taking a piece of artillery and putting it in the Reserves, some bulk fuel capability, is two examples. This does not handicap our mission to deploy two MEF's to go to war without having to call up the Reserves for a low to mid-intensity type conflict.

Now, something full-scale for a longer duration, certainly we would have to add this enhanced Reserve capability. This is a program over a period of time. There are still some details to work out. Certainly we are not going to just snap our fingers and say, "here Reserves, you have it", until they are ready to accept it.

Mr. MARTIN. Well, the question, does that translate into a reduction in end strength—these bulk fuel and artillery outfits that are going to the Reserves?

General CARSON. No, because it is a trade of other war fighting initiatives.

Mr. MARTIN. Recently we conducted a hearing relative to the readiness of our Reserves. We noted that almost across the board those Reserve units are substantially behind the active units as far as categories C1 and C2. Is that true as well for the Marine Corps? Is my recollection correct as far as their readiness to perform the task of being part of the total force?

General CARSON. Yes, sir. We monitor Reserve readiness in a couple of ways. We look at the Reserves' training allowance and what portion of that is fully ready. Then the residue of the equipment that we would owe them on mobilization and is that equipment available and ready.

Mr. **Martin**. What I am saying is, almost invariably aren't your Reserve components going to lag as far as readiness? I am talking about categories C3, 4 and 5. I guess you want to look at it the other way. The C1 and C2 categories, they generally lag behind the regular forces, the Marine Corps as well as the Navy and the Air Force and the Army, don't they?

General **Carson**. That is correct.

Mr. **Martin**. Well then by definition, and I know you are up with some tough decisions to make, wouldn't it be reasonable to conclude that if you are going to have to shift some of those forces to the Reserves for purposes of meeting the bogey here on the budget, that readiness is going to suffer and almost immediately?

General **Carson**. Well, I would like to say that these decisions to reorganize the Marine Corps, placing some small segments in Reserves, was not a result of a bogey. This was as a result of task groups put together to look at the Marine Corps from the ground up shortly after, within weeks after the current Commandant taking office.

Perhaps I have overemphasized what is going to the Reserves, because that is just a small portion of the overall reorganizations. Example, a case in point, we cadred three infantry battalions. But, we added a fourth company to eight infantry battalions. These are special operations capable battalions. We have added infantry into what was a light armored vehicle, LAV, battalion. So, when I mentioned reorganization and some piece going to the Reserves, maybe I overemphasized that going.

These reorganizations were not a result of a bogey. They were reorganizations as a result of a study to enhance the combat capability, enhance fox hole strength throughout the active forces.

Mr. **Martin**. Would you say similarly that the individual and small unit training emphasis in this budget cycle is driven by the requirement for that kind of training, rather than strictly budgetary concerns?

General **Carson**. Absolutely. Here again, this bogey was not known and the battle skills training was not as a result of that. I think many of us, myself being a logistics officer for 35 years, have seen that Marines in various military occupational specialties became experts in those specialties, but were not the type of a guy to be trained for rear area security or for the type of warfare we have today.

Battle skills training, for example, every Marine, regardless of whether he is going on to motor transport school, supply school, engineer school, regardless of what his eventual specialty will be, he gets this battle skills, infantry type training.

Mr. **Martin**. I recall vividly I think it was the first week that General Gray was serving as commandant, he invited some of us down to 8th and I, where he explained, not in detail but in general, the individual training and what was going to happen and he has carried that out. I just wanted to be sure, and given my former condition of servitude I am sometimes suspicious when they divide the pie down at the Department of Navy. I feel somewhat better about the fact of these substantial reductions, because they are horrendous and I wish you all the best in doing what you are trying to do with an awful lot less.

Admiral, on page 7 you speak to Special Operations Forces. I think you might agree with me that given the build-up in the units to which you refer in that paragraph and given that it is sometimes more difficult to determine what the actual costs are going to be for training missions for those various units, given the need to give them specialized training exposure and that type of thing, and they do not have a history of building up, knowing how to put on a budget, because they have not always had a uniform training schedule or demand for their particular abilities. While they are in the process of doing that, I would hope that the folks in your shop would take that into consideration, because it does not take much of a deployment on their part to double their outlays and sometimes they become real short on money to do the operations that are required or expected of them. I hope that we find some way to insure that we do not have problems coming up with money overnight to make sure that they can go on deployments when they are required or The Department of the Navy feels is necessary.

Admiral **Arthur**. Yes, sir. We have taken a lot of pride in the past that we have supported our SEALS very well. There is an aberration in this budget submit that makes it look like our support of them decreases in 1990-1991. But, that is only because of a plus-up that was provided in fiscal year 1989 to get them new items as a transition under CINCSOC. We have supported them well and I would like Admiral Walsh to go into the details of the funding on that particular item.

Admiral **Walsh**. Just two things, sir. First of all, regarding the plus-up to Special Operations Forces in fiscal year 1989, a good piece of that funded all of the maintenance backlogs generated as a result of the Persian Gulf ops.

As you know, the MK-3PB——

Mr. **Martin**. Pull that microphone a little closer.

Admiral **Walsh**. The Mark 3PB's and other equipment you took a heck of a beating out there and generated a fair amount of maintenance requirements which were not funded in fiscal year in 1988. With the money we have in fiscal year 1989, we have not only fixed the equipment we have zeroed out all the backlogs and funded the spare parts and the support that go with it.

A lot of it can be considered one time costs. The fiscal year 1990 and 1991 programs support the growth from 45 to 60 platoons. To the extent that we are capable of doing it, we have projected their training costs as a fully funded item.

We have worked very closely with Rear Admiral Lemoyne in trying to develop a system to project what their training costs are going to be. We have been working for about the last 4 months to develop performance criteria, so that we can really project down to the platoon level and team level what their training costs are going to be. We have, to the best of our ability funded that.

Now, there is a problem during execution in trying to move money into Special Operations as a result of establishing Budget Activity 11. We have a $10 million below threshold reprogramming capability. But we have to obtain approval from OSD before funds can be moved into or out of BA-11. If we have to put more money into Special Operations, it requires a DD form 1415 and prior congressional approval.

Prior to 1988, if we had a problem, special operations were budgeted in Budget Activity 2. We had an $11 billion funding base, if you will, from which to fund them. We never really had a problem funding their requirements during execution. This will become a problem in future years.

Mr. HUTTO. If the gentleman would yield. I do not quite understand that, Admiral. You are saying with MFP 11, that Special Operations will be a problem?

Admiral WALSH. They will not have the funding base from which to operate that they previously had. For example, right now Navy Special Operations Forces in O&M in fiscal year 1989 is a little over $100 million. If they should have an emergent requirement that is say $15 million, the only way that we can move money in there is with a formal 1415 reprogramming action which goes to four Committees of Congress and the time involved in doing that.

Previously, when Special Operations were part of Budget Activity 2, if they had a problem we had a sufficient budget base within Budget Activity 2 of making whatever adjustments were necessary from within that Budget Activity.

Mr. HUTTO. I will grant that the Navy at times seems to have done better by Special Operations. But generally speaking, Special Operations continually had a problem because we did not pay it much attention. It was a very low priority. So, the purpose for MFP 11 was to make sure that Special Operations did not suffer in this manner.

So, what you are saying is that if you need to add to Special Operations, you have to have a reprogramming?

Admiral WALSH. Yes, sir.

Mr. HUTTO. Well, you have to do that for any pay-ins don't you?

Admiral WALSH. Yes, sir. But previously, when they were part of General Purpose Forces, we had the entire budget base within Budget Activity 2 to deal with, which did not require a reprogramming action.

Mr. HUTTO. Did you finish, Mr. Martin?

Mr. MARTIN. No. Only just to add, it is part of the budgeting process that causes the problem in this particular area.

Admiral WALSH. Yes, sir.

Mr. MARTIN. I would hope and you can rest assured that Chairman Hutto, Mr. Kasich, myself and others look forward to picking up that hook anytime, anyplace. We understand that the problem is not mistaken planning. It is just that you do not have the flexibility that we would like you to have and we will fix the problem and we understand. But, please feel free to pick up that hook. We can——

Admiral WALSH. Yes, sir.

Mr. MARTIN. Do as we did last year. Enough said.

Mr. HUTTO. Thank you, Mr. Martin. Mr. Lancaster.

Mr. LANCASTER. Admiral Arthur, I understand that the mission capable rate is considered by CNO acceptable at rates of 70 percent, though the goal is 73 and higher. That rate, which was 73 for fiscal year 1988, is forecast to drop 1 percent each year to 70 percent in fiscal year 1991. Given that fiscal year 1991 is also expected to bring a 100 percent increase in aircraft overdue for maintenance, aren't we preparing for a great fall in mission capability rates beyond fiscal year 1991? What plans are there to prevent our going into a downward spiral in this regard?

Admiral **Arthur**. As I ended up my oral statement, I talked about asset capitalization. The major reason we will have a lot of aircraft overdue or awaiting rework is in the engine line. Of course, there are opportunities to improve our industrial ability to rework engines with much more modern equipment. So, that is the reason for that push for ACP, it is a way of gaining more efficiencies in things like industrial work to help us out of that hole.

We recognize that, as the funding levels come down, we will incur backlogs. Our goal is to identify efficiencies to keep it from actually happening.

The mission capable rates coming down to 70 percent, we can live with that. That is an acceptable risk. We would prefer not to, of course. But the trade-off is that you have to come down a little bit to fund the other parts of your readiness equation. We will work that issue hard and we are working within our own industrial facilities to make sure that we can go after every efficiency we can find so that perhaps those backlogs will not materialize as forecast.

Mr. **Lancaster**. The airlift and sealift line shows a substantial drop in funding. I realize that much of this is a result of shifting to the Air Force and the Army the funding responsibility. But even if you subtract out that shift, there still seems to be a significant decline in that budget line. I wonder what the impact of that is going to be with our airlift and sealift capability?

Admiral **Arthur**. In the sealift equation, of course, we have several parts right now that make that line look very unusual. You pinpointed the fact that we have gone to a "user pay" in the outyears for prepositioning, so that whoever decides to load their ammo or cargo on the ship will pay the freight. Therefore, we do have the Air Force and Army picking up costs that previously were charged to Navy.

We also have transferred some funding lines that we used to own to MARAD, after much discussion here in the past few years, and that has impacted that line.

We also have a rate equation working against us in that we have predicted a lot more reduction in the costs of sealift for MSC to go out on charter because of competition. However, the competition is just not there in the marketplace. So, the rates that MSC is forced to pay are higher than anticipated. All of those things work to give us a little bit less program to work with than we had before.

Mr. **Lancaster**. Do you feel that that is a significant impact on readiness?

Admiral **Arthur**. In the long range if you were to ask TRANSCOM that question he would say absolutely, as he looks at the whole equation for transportation during wartime. Obviously there are some readiness issues there. We think that again is within "acceptable risk". We would like to see more money for sealift, but recognize we are not able to do that.

Mr. **Lancaster**. Because of the disastrous situation at Naval Hospital, Camp Lejeune and the non-availability of health care for particularly retirees and dependents, that community has been very concerned and very interested in problems of Navy medicine. On page 6 of your prepared statement, you indicate that that funding is basically going to be level and that you do this by savings in CHAMPUS resulting from CHAMPUS reform in contracting out.

This committee has been hearing that refrain for years, and yet there is always reprogramming requests because CHAMPUS always comes up short. I wonder if you could address this whole crises? The problem, number one, of availability. Number two, cost overruns. I wonder if we should not be devoting more resources to in-house Navy physician and Navy Corpsmen and Navy nurse delivered health care as opposed to continued reliance on contracting out and CHAMPUS? Are we being realistic when we say that we are going to continue low levels of Naval personnel in health care and we are also going to cut CHAMPUS? I think they really are mutually exclusive.

Admiral ARTHUR. Admiral Walsh and I have spent a lot of time with Navy medicine here of late. We are both members of the Flag Officer Working Group that put together the Blue Ribbon Panel on Navy medicine that the Vice-Chief chaired.

Mr. LANCASTER. If I might interrupt you. Would you also call for not one additional doctor, one additional nurse or one additional corpsman, which I find inconceivable?

Admiral ARTHUR. One of the things that we looked at very closely within those deliberations and which is reflected in our budget is that we protected Navy medicine from the across-the-board hits that we had to levy against every other part of our budget. We do have some medical growth.

We spent resources and have a lot of people who are now in recruiting duty where we did not have medical types before, so that we could show some of the folks out there in medical schools that it was an attractive career. We still cannot meet our goals.

So, although we recognize and would like to have more uniform medical personnel, they are just not available. So, we do have to contract out. We find that we are able to contract out in some very significant areas, which give us, even with the contracting, an opportunity to recapture some of the CHAMPUS bill.

CHAMPUS, as is all civilian medicine now, is an unbounded game. The predictions of what will happen to medical costs as the years roll by are of concern in that the growth far outstrips the growth in the rest of the economy as an inflationary factor. We have to use whatever means, whether it is contracting or whether we can increase our accession programs, to get more nurses and doctors in the service. Either of those is still more attractive than just dumping the workload out in CHAMPUS.

I think one of the things that we were able to do with the Blue Ribbon Panel was to start focusing on how we can better manage our present resources so that we can make sure that we have got a number of the operating room technicians, nurses, physicians and the surgeons that support an Operating Room environment all in one place. Too often we found that we had pieces here and there, but we could not bring them into one place.

We are doing that now, and in some cases it requires a contract, such as Emergency Room service at Bethesda and it is working very well.

Mr. HUTTO. Would the gentleman yield on that point? How long has that been in effect?

Admiral ARTHUR. The contract for the Emergency Room service at Bethesda was enacted just last week. As an outgrowth of the Blue Ribbon Panel, we have just started within the last 2 or 3 months to make some positive steps on correcting existing problems. We have had Assist Teams, Management Assist Teams, out in the field. Lejeune was one of the very first visits. They went down to take a look to see how they were doing, compared it with what we are doing up here in Bethesda and we are very optimistic that we are starting to make positive steps forward.

Mr. HUTTO. How old is the Camp Lejeune contract?

Mr. LANCASTER. None have been signed yet. There are two that are out, but none have been signed yet.

Mr. HUTTO. I think my interest, my question, is do you have a way to track this to see if indeed you can save—I mean it has been my observation that many of these contracts, a contractor would get his foot in the door and then before you know it, it is costing a lot more than it was in-house.

Admiral ARTHUR. If we had the manpower in-house to do it all, obviously that's where the most savings could be achieved. However, we can readily show that almost any contract will beat CHAMPUS. We can contract for portions of medical care that will beat the CHAMPUS rates that we normally pay, except in remote parts of the country where you may be able to find a bargain. Normally, where we are located, you do not find many bargains.

Mr. HUTTO. Well, I would agree that CHAMPUS has escalated out of sight. We always have to come up with this supplemental of $300 or $400 million every year. I think the more that we can do in-house, and perhaps under project RESTORE some of these programs where we bring the civilian doctors and others into the military hospitals might be of help.

Admiral ARTHUR. One of the things that we have been able to realize here, especially in Bethesda, is the use of Reserves. We are finding that we can put our Reserves into the equation a lot more readily than we could in the past. We are updating some data tracking systems so that we can keep their credentials updated, so when they do show up at the door for 2 weeks active duty, or even a weekend training session, their credentials are such that the Quality Control Board, so to speak, can say they are cleared, they are capable of providing medical care immediately.

Mr. LANCASTER. I will go on to another subject, but I want to make a brief comment before I do on the medical situation. It is my understanding that the average compensation paid to a contract doctor is about $110,000. If we would address, in my opinion, the low pay that Navy doctors receive, you might be able to attract more. The Blue Ribbon study did not address that at all, which I think was a real shortcoming.

Admiral ARTHUR. The panel recommendations addressed the bonus situation. We are working actively within the building, for a bonus situation for our doctors. We realize, however, that we will never be able to pay, the same as the civilian rate.

Mr. **Lancaster**. Well, if we are paying $110,000 to a contract physician, why not pay a little more to the Navy physician and avoid going to $110,000?

You state that you must increase the backlog of ship and aircraft maintenance overhauls, but you have also increased funding for strategic homeporting. I wonder if you would discuss for us a little bit your priorities between maintaining readiness and continuing the Homeporting Expansion Program?

Admiral **Arthur**. The Strategic Homeporting Program addresses the issue of warfighting capability that is being able to disperse our forces in locations where we all are not staging out of the same place, so there was a readiness issue for warfighting capability in the strategic homeporting equation.

There is no doubt we must fund that. To get it on-line has been one of those must do or must pay bills that impacts the rest of the budget. The program has been reasonably successful to this point in that community participation gave us funds to bring it on-line that we did not have in our own budget. There has been some payback. There is really no free lunch.

We still feel that the Strategic Homeporting Program is beneficial. Some of the costs are going to be paid whether the Strategic Homeporting Program went or not, because most of our facilities were overloaded as we went into the Base Closure Commission. Our data showed that we are more heavily loaded in our existing ports today than we have been since World War II. The trend is growing. So we needed a safety valve, and I think the Strategic Homeporting Program has provided that.

Mr. **Lancaster**. Mr. Chairman, I have several other questions. But I will either reserve those for the record, or if we should end up with time after the other members have asked their questions, I might have another round.

Mr. **Hutto**. Thank you, Mr. Lancaster.

Mr. McNulty? OK.

Still on the subject of homeporting, and I am one who supports 15 carriers, I think it is necessary. We cannot acquire land in various parts of the world, we cannot have a presence there. But with an aircraft carrier we can float an airport to where we want it.

But in view of the possibility that significant additional reductions may have to be made to the Navy O&M request during the Congressional budget process, there has been some talk about retiring one carrier. Three possibilities have been mentioned. One, retire the *Midway*, which is homeported in Japan. Two, retire the *Coral Sea*. Three, retire or reduce the availability of the nuclear carrier *Enterprise*, which is scheduled for a major overhaul and refueling projected to cost over $2 billion. In view of this continued talk, what would be the projected O&M cost savings associated with the retirement or reduced availability of these three carriers?

Admiral **Arthur**. Mr. Chairman, trying to take those carriers off-line in any given year incurs a bill in the O&M account. We estimate that it will cost about $100 million to decommission one of those carriers, depending on which one you are talking about, to start the process, to get the people moving, get the ship in a condition where you can lay it up or get it ready to sell for scrap or whatever the decision is to do with that ship.

So, when you try to project out the costs in the long run, what you save and what you don't save, becomes very difficult. For *Midway* and *Coral Sea* and *Enterprise*, they are all included in the deployment schedule and so we have to make some decision on which carrier picks up the slack. Obviously, there can be some costs associated with that, depending on what kind of movement you have to make with those ships, how much of a schedule change you have to make. In the short run, our answer would be there are no immediate savings. Over the long run, obviously there are some savings. Then you have to decide, are you going to keep the air wings associated with those carriers? Are we really going to take the force level down to a reduced number for all time, or are we just trying to get a short term reduction and hold the air wings available to man new carriers as they come on-line? We would need to know all of those parts before we could give you a definitive answer.

Mr. HUTTO. I hope that you can tell me there are no plans to retire any of them.

Admiral ARTHUR. That is correct, sir. No plans.

Mr. HUTTO. On page 5 of your prepared statement, Admiral Arthur, you indicate that the budget request does not include any adjustments associated with the proposed base closures. Assuming that Congress goes along with the base closure recommendations, what kind of O&M funding impact do you anticipate over the next couple of years?

Admiral ARTHUR. Within the Base Closure Commission there is a central fund of about $500 million to be distributed amongst the services to implement those recommendations. Now, this is off the top of my head, because we are still trying to define those numbers, we can identify nearly $200 million what we would need if we were to carry out the Base Closure Commission recommendations.

The Commission projects a pay back within 6 years. We do not disagree with that. You should see that payback within 6 years.

Mr. HUTTO. The Base Closure Commission recommended not going forward with homeports in Galveston, TX and Lake Charles, LA.

Admiral ARTHUR. Yes, sir.

Mr. HUTTO. Transferring the frigates from Galveston and the oiler from Lake Charles to Ingleside has that been accepted by the Navy? Can you tell me?

Admiral ARTHUR. We are trying to anticipate whether the Congress will accept the recommendations of the Base Closure Commission. With regard to Lake Charles and Galveston, it caught us at a bad time. We were about ready to contract out some major work.

What we have done instead of trying to terminate those contracts, was to preserve the money because they were all split funding, community dollars as well as ours. We want to prevent the community from losing their money as well as some of our own, we are trying to bail out of those contracts until we can find out whether the commission results are going to be accepted. That way we can assure that we can pay back the communities their contributions as well as minimize the losses to us.

If in fact the Commission recommendations are not accepted, we will go back and renegotiate those contracts. Obviously, we are going to pay a little bit of a fine for having done that. We think the risk is worth doing at this time.

Mr. HUTTO. On page 6 of your prepared statement, you say that the current funding request includes a pass-through to the Navy stock and industrial funds of over $1 billion over the next 2 years. My understanding of these revolving funds is that they are self-sustaining, relying on future rate adjustments to maintain a zero profit/loss position over time. Why is such a large pass-through needed at this time and what happens if the amount of the pass-through is reduced?

Admiral ARTHUR. I will let the technical answer reside with Admiral Walsh. But in trying to understand this issue, I have finally come to the conclusion it is sort of like your checking account in November, December and January. As you come up to Christmas season, and all of a sudden you find out that your checking account balance is going to go to zero as you keep going out and buying all those nice gifts. So you reach into some savings account and infuse your checking account and you go back in business.

That infusion is what we are talking about in the pass-through. I will let my technical expert here, see if he can explain it any better than that, sir.

Mr. HUTTO. Admiral Walsh.

Admiral WALSH. A couple of points. First of all, the future rate structure, by agreement between OSD and the Congress, only reflects the cost of doing business in that year. We do not adjust the future rate structure to accommodate prior year gains or losses.

From about 1983 to 1987 when the industrial funds were making money, we did not lower the rate that they were charging the customer. But rather, Congress appropriated a rebate from the industrial funds back to the O&M account. Over those 4 years the industrial funds rebated about $1 billion and a half out of industrial profits, back to the O&M account.

In fiscal year 1987 the amount of the rebate was roughly $500 million more than the profits that were available within the industrial fund. In fact, we ran about a $500 million loss in fiscal year 1987 as a result of that.

In fiscal year 1988, as a result of the drying up of competition in MSC and some other factors, we continued to experience further losses. As is the agreement between OSD and the Congress, rather than raising the rates in 1990 and 1991 to make up those losses, we appropriate or we are requesting the appropriation of the reverse of a rebate, which is called a pass-through.

The reason that we have stabilized rates is so that we can guarantee in advance the amount of work that will be bought in a year for a given amount of money. When we put forward a budget, we have so much money in depot maintenance for aircraft rework or for ship's maintenance. We know the number of mandays of work that those funds will buy. No matter what happens to the price of fuel or labor or spare parts or material we know what we are buying and we can budget for it and we have a stabilized environment. That is how we can predict what our backlogs will be and what our readiness will be as a result of the depot maintenance we have budgeted.

If we do not get the pass-through that is requested in the budget, what happens is that the accumulated operating results or the financial condition of the industrial fund will continue to deteriorate. Right now it is about $1 billion in the red. We have about $300 million worth of cash to pay bills. If we do not get the pass-through, we will not get the operating cash necessary to continue the operation of the industrial fund and we will either require a reprogramming or we will have a technical violation.

Mr. Hutto. Admiral Arthur, you understand that?

Admiral Arthur. I am trying to, sir.

[Laughter.]

Mr. Hutto. Welcome to the club.

Admiral Arthur. I was just asking if you did.

Mr. Hutto. On page 13, you say that the current Navy O&M request assumes reductions in civilian employment levels at Naval shipyards, Naval aviation depots and public work centers. How large are these reductions going to be and could you provide the subcommittee with a breakout of the reduction by year and by specific activity? If you would provide that for the record, we would appreciate it very much.

[The following information was received for the record:]

Estimated civilian employment changes at Naval Shipyards, Naval Aviation Depots and Public Works Centers, where nearly one-third of the civilian work force is employed, net to —5,145 in fiscal year 1989, —6,952 in fiscal year 1990 and —1,433 in fiscal year 1991. End strength estimates and year to year changes for each specific activity groups are as follows:

	Fiscal year 1988	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991
Naval Shipyards:				
Civilian end strength	71,029	67,000	60,000	59,500
Year to year changes		—4,029	—7,000	—500
Naval Aviation Depots:				
Civilian end strength	22,616	22,980	23,149	22,500
Year to year changes		+364	+169	—649
Public Works Centers:				
Civilian end strength	13,656	12,176	12,055	11,771
Year to year changes		—1,480	—121	—284

Mr. Hutto. Mr. Lancaster, you have another shot.

Mr. Lancaster. General Carson, your statement indicates the critical importance of maintaining support infrastructure. Yet proposed funding levels will bring the backlog of maintenance of real property to over $600 million in fiscal year 1991. How do you justify that kind of backlog in light of your statement of philosophy?

General Carson. Our statement of philosophy? I do no understand.

Mr. Lancaster. Well, your statement is that it is very important, critically important, to maintain support infrastructure. Yet you are letting your support infrastructure build up a backlog of over $600 million in maintenance that is not going to be done. So, are you being consistent in saying that infrastructure is important, but yet let that kind of backlog build up?

General CARSON. Well there again I go back to the hard choices that we wanted to make. Yes, we supported, fully supported and funded our structure. Yes, this backlog is building. We think it is an acceptable risk in the short term. Certainly anything beyond the next couple of years, we would have to be concerned with that backlog and would have to really take a look at protecting structure and have that backlog continue.

I would like to say that it is a real backlog; things that we would like to do. Having said that, I must say that most of our bases during this decade got pretty well.

Mr. LANCASTER. You also make a similar statement with regard to depot maintenance backlogs. You say that you do not like the trend, but that you can live with it over the short term. I wonder what you are doing in terms of the future for both this infrastructure backlog and the depot maintenance backlog to address it for the future? Are you hoping that the revenues are going to be better in the future and that you will do some catch up? How are you planning for these backlogs that you say you cannot stand for very long? So what are you going to do in the long term? What planning are you doing for the long term?

General CARSON. We would certainly have to cut the pie, the TOA pie, different in the 1992-1993 time frame to give us O&M. I would emphasize that these backlogs certainly could not continue for a long duration.

Now I think, if my memory is correct, it is about $86 million in the depot maintenance. Certainly I would like that to be $100 million so that that backlog would not grow. Today, the readiness, overall readiness, of Marine Corps equipment is 91 percent. This backlog this year or next year will not impact on that readiness. We will have to cut back certain items and we will not be rebuilding or repairing the total quantities. That, in my view, will not affect readiness. Where that will affect is sustainability. Instead of having the 60 days worth of sustainability ready to go, it may be decreased 58, 57, 55 days and down as the backlog grows.

Mr. LANCASTER. You mentioned that the Commander of Marine Corps Combat Development Command has been tasked with putting together a Marine Air/Ground Task Force Master Plan, which will be the foundation of the programming process. How far along are you in the development of this plan?

General CARSON. His plan has undergone several staffings and many Assistant Commandant of the Marine Corps (ACMC) Committee Meetings of the General Officers shooting at it. It is in its final stages and is expected to be signed by the Commandant the first week in April.

Mr. LANCASTER. As you rely more and more on carrier based aircraft for deep and close air support, what sort of problems does the decrease in mission capability for Navy aircraft and carrier operated aircraft—how do you feel about that? What does that mean to Marine Corps readiness?

General CARSON. It means basically that the Marine Corps aircraft will share in that. I think last year whenever there was a Navy aircraft parked or waiting for some reason, dollars or otherwise, for maintenance, the Marine Corps shared in that. If I recall, throughout the year we were delayed on maintenance on three or four helicopters. I think it was one OV-10 and I think it was about five or six aircraft, helicopters and others, that were parked for some period of time last year, which was our share of the Navy backlog.

Mr. LANCASTER. With regard to modernization versus manpower, how much are you prepared to lose in modernization before you start taking manpower cuts?

General CARSON. Well, that is a very difficult question to answer. Let me say this, in this decade the Marine Corps certainly, on the ground side, was almost totally modernized. The majority of weapons in our infantry division were modernized. There are some programs today that are funded and deliveries forthcoming that would continue that modernization.

In our PMC program this year, probably one of the few items that has not been modernized so far is the replacement for the M-60 tank. In the PMC program this year, the M-1 tank replaces that.

So, effectively we have been modernized. Certainly we would like to maintain a continued balanced program of modernization as opposed to finding ourselves in the position that we were in the late 1970's, where the tactical vehicle fleet, for example, was older than the drivers.

Mr. LANCASTER. Two questions for Admiral Arthur and then I will be finished, Mr. Chairman, if I might.

Admiral Arthur, you are converting contractor support to inhouse efforts to protect the acquisition process, according to your statement. This increase is 975 people in fiscal year 1990 and 1,719 people in fiscal year 1991.

It is my understanding that most of those people will be going to one system command in Crystal City. It is also my understanding that this command is already grossly overcrowded and in deteriorating offices. Where are these additional people going to fit? You say this increase in personnel will be made at no net increasing cost. What line in your budget then did they come from?

Admiral ARTHUR. We took those dollars from several procurement lines. I can give you the accounts that we looked at, the APN, OPN, RDT&E Navy, WPN and SCN. We went into the procurement accounts.

Mr. LANCASTER. Since I do not have the foggiest idea of what any of those are, why don't you give us that for the record in a little more detail?

[The following information was received for the record:]

	Fiscal year 1990	Fiscal year 1991
End strength	+975	+1,719
Funding:		
Aircraft procurement, Navy	—4,700	—8,800
Other procurement, Navy	—1,600	—4,100
RDT&E, Navy	—7,600	—22,600
RDT&E, Marine Corps	—5,100	—5,100

	Fiscal year 1990	Fiscal year 1991
Weapons procurement, Navy	—1,100	—4,100
Ship conversion, Navy	—8,100	—19,300
Operation and maintenance, Navy	23,100	58,900
Operation and maintenance, Marine Corps	5,100	5,100
Total		

Admiral **Arthur**. Yes. It is real alphabet soup when you go through the numbers. Basically we went into our procurement accounts. Most of the procurement accounts have dollars associated with technical services. We took those dollars out and reallocated them into O&MN to put these folks back in our structure.

Now, where do we house all those people? I am not sure everybody has thought all that through. But, not all of them will be in Crystal City, of course. There will be folks in many of our industrial facilities that are players in the whole equation of going through the acquisition process and providing those services.

We also have a long range view toward improving our situation in Crystal City with either being able to lease additional space or to relocate. So, of course we will take that into account as we bring these people on-line to make sure that we do not have them out on the streets in tents.

We do feel that based on all of the interest that has been given to the acquisition side of the house, that it does represent a step forward as bringing back within our own capability, people that are working for us as we put together these bid packages to go out and bring a new system on line.

Mr. **Lancaster**. A witness at a prior hearing stated that the Navy's accounting system cannot allocate costs by military exercise. How can the Navy then assess the impact on military exercise reductions if they cannot tell how much money you are spending and where you are spending it? I believe that the witness who testified to that effect was a representative of CINCPAC last week.

Admiral **Arthur**. I suspect what he was referring to—unlike our other service friends, when we participate in an exercise we usually have that exercise as a part of our normal operating mode. If Seventh Fleet is involved in, say, Team Spirit, in Korea we manage the fleet around where those ships were going to be at sea. They were scheduled to be at sea. We roll ourselves into those exercise in that same format. So, it is hard for us to say, if we were not in that exercise we would be someplace else doing the same thing, so there are no additional costs.

Now, for the Army and the Air Force to show up on scene, it is probably a deployment of a unit or more to show up. I know when I was on the fleet staff we used to see if there was some way we could obtain funds since we are participating.

Mr. **Lancaster**. I understand that. But, you have not answered the question. Since that is the case, since that is the way you participate in exercises, without being able to allocate the cost to exercises, how then do you assess reductions in exercise budgets if you cannot allocate what is exercise budget and what is normal steaming time?

Admiral **Arthur**. Since we do not receive the dollars, or in very few cases do we ever receive dollars for participating in an exercise, we fall back on our steaming hours and flying hours as a representative of how well we are being trained or how much training we are accomplishing. So, if my good friend here in the budget office could figure out some clever way to get somebody to pay us for participating, then we would have to find some way to show what delta an increase in readiness were we able to obtain by that participation.

Admiral **Walsh**. We also have a difference between the way the Army and the Air Force does business and the way we do business. Even when a ship is operating in a joint exercise, there is an awful lot of things that that ship is doing for its own internal training that have nothing to do with the joint exercise. A lot of the damage control training, the communications and what have you, are training that the ship would do itself.

When we set a training syllabus for a ship, it is not dependent on a particular place or time to do it, but rather, certain things that have to be done. The Skipper of the ship is responsible, within the resources that he is given, and the number of days underway to schedule his training to accommodate all training requirements.

We can measure how ready the ship is at any given time by where it stands in its syllabus. Now, if we were to cut ship OPTEMPO, which would have an impact on exercise training as well as everything else, you would see a reduction in the training that that ship was doing. That is how we would measure it.

But, we do not schedule our training, we do not measure our training, strictly by joint exercises, fleet exercises or individual ship training.

Mr. **Lancaster**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Lancaster.

Mr. Holton has a follow-up question regarding civilian end strength.

Mr. **Holton**. Admiral, when you supply for the record the changes in civilian end strength, would you do that by activity?

Admiral **Arthur**. Yes, sir.

Mr. **Holton**. You are going from 345 to 399. In addition to that, you are also—I think Mr. Lancaster was alluding to—adding 900 to 1,000 people in the acquisition process? Would you identify all those by activity for the record?

Admiral **Arthur**. We will do that.

[The following information was received for the record:]

Civilian end strength increases in our budget due to converting contracted advisory and assistance services are in the following activities:

	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991
Naval Air Systems Command:			
Program Management Office, Arlington, VA	30	145	105
Operational Support, Field, Arlington, VA	57	93	75
Naval Aviation Depot Operations Center, Patuxent River, MD	6	6	6
Naval Sea Systems Command:			
Program Management Office, Arlington, VA	45	209	238
Operational Support, Field, Arlington, VA	30	133	245

	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991
Naval Space and Warfare Systems Command:			
Program Management Office, Arlington, VA	70	105	75
Marine Corps:			
Marine Corps Research, Development and Acquisition Command, Quantico, VA (some in Arlington (Clarendon), VA)		46	
Total	238	737	744

Mr. HOLTON. Following up on the acquisition part of it, the Navy Investigative Service I guess hit you with a report saying that it looked like there was potential problems and therefore you should probably revert some of these back through Government functions. Did they talk specifically about engineers? It seems like a big portion of the numbers we are talking about are civil service engineers, which have nothing to do with the acquisition process, do they?

Admiral WALSH. Well, that is not entirely correct. When you are trying to develop the performance specifications in a bid package, you want a guy who understands what it is you are bidding for. So to a very large extent, you need the technical skills to put together the acquisition program in a way that can be bid on by a civilian contractor. So although we are talking about engineers, we are really talking about a skill level that is required in order to do the job.

Mr. HOLTON. Are these skill levels GS–14's, 15's?

Admiral WALSH. I could not tell you right off hand.

Mr. HOLTON. Have you started hiring?

Admiral WALSH. I do not believe so.

Admiral ARTHUR. Not that I am aware of. I am not aware of any hiring yet that has taken place.

Mr. HOLTON. Would you identify what skill levels you are talking about and what the potential is, what grade levels you think that it is going to equate to.

Admiral ARTHUR. If we have hired any we will include that in the data.

Mr. HOLTON. We held hearings last year on the Naval Audit Service. The committee felt that the funding level for the Naval Audit Service should remain about $26 million for fiscal year 1989. Now, it is my understanding in looking at the 1990 budget that the Navy has increased the Navy Audit Service budget to over $28 million. I would like to know what is the rationale within the Navy for restoring the $2 million reduction that the Congress made. All four committees within Congress agreed to that reduction. I guess I would also like to know why the Navy did not notified the committee that it was going against the committee's wishes and restoring that money.

Admiral ARTHUR. Can I take that one for the record, sir?

Mr. HOLTON. Sure.

[The following information was received for the record:]

The congressional reduction of $2 million to the Naval Audit Service (NAVAUDSVC) appeared to be intended to eliminate real program growth for naval audits budgeted since fiscal year 1987. Since this action effectively reduced fiscal year 1989 real program to levels below actual fiscal year 1987 experience, the Navy funded fact-of-life pricing adjustments for fiscal year 1988/fiscal year 1989 pay raises (1.4 million) and inflation ($0.1 million). Further, in response to congressional recommendations that NAVAUDSVC efforts be redirected toward program-result auditing, the Navy provided the resources ($0.5 million) needed to finance the additional costs associated with these multi-location audits. Since the Navy was not aware that the $2 million reduction represented a spending limitation, the committee was not notified of these adjustments.

Mr. HOLTON. OK. One final question. The Armed Services Committee has visited Subic Bay and they have visited San Diego recently. They are finding in both locations that all the MWR activities, whether they be libraries or bowling alleys, OK, they are all being funded almost 95 percent with non-appropriated funds.

This goes directly opposite to what the committee had been working toward for years. In that those activities that were not revenue producing, the committee has always felt that they should be funded with appropriated funds: libraries, gymnasiums. The guys that are running the MWR activities at these facilities are doing just the opposite. I was wondering what is the Naval philosophy on this one?

Admiral WALSH. We are in the process right now of reviewing all the MWR funding, particularly out in CINCPACFLT. It has been an ongoing discussion. I am going out to Pearl Harbor the second week in April to review that in its entirety.

It is our policy to allocate the funds exactly as you have indicated. That the appropriated funds would go to those things that are not revenue generating and the revenue generators would fund themselves. If there is a disconnect, it may be that there is some lag from what we used to do to where we are at now. It may be that some people have not gotten the word yet. But, that is one of my tasks when I go out to CINCPACFLT next month.

Mr. HOLTON. A final question in that area. NAVRESSO profits, about 90 percent of NAVRESSO profits are now going to the MWR budget for operations. Only about 10 percent is going for construction, in like AFEES, which has about a 50/50 split. NAVRESSO used to have a better ratio than 90/10. Looking at some of the NAVRESSO facilities, I am wondering why is that occurring? I mean, the facilities are terrible in a lot of areas.

Admiral WALSH. I have to take that one for the record, because I am not aware of any problem that NAVRESSO has raised with respect to their share of the budget or their share of MRP linked construction.

Mr. HOLTON. It just looks like they are really underfunding their facilities.

Admiral WALSH. I will look into it.

[The following information was received for the record:]

NAVRESSO PROFITS

The amount of Navy Exchange profits retained for reinvestment versus that paid as dividends to support MWR operations is based upon a multi-year agreement. This agreement specifies a baseline dollar amount which will be provided to the MWR program; it does not specify a percentage split. Therefore, the ratio of funds available for reinvestment (construction) varies yearly. This arrangement affords stability to our MWR program while the business related risk are borne solely by the Navy Exchange System.

The need to reinvest in facilities, inventory and equipment is understood and agreed with. Historically, Navy has used the yardstick of two-thirds of the total profits for MWR support, and one-third for system reinvestment. Over the last 2 years this equation has gotten somewhat out of balance. Below projection earnings in company with the above mentioned minimum floor of support going to MWR operations has distorted the historical percentage of reinvestment dollars provided from Navy Exchange profits.

Navy is working to correct this imbalance. Navy Exchange profit projections for the next several years are being scrutinized and the profits distribution agreement is being revised. The ultimate result will approximate a 60/40 division (MWR/Reinvestment) of profits, after earnings from package/beverage stores, telephones, fast food and amusement machines are provided to the local commander. This should better meet our resale system reinvestment needs.

The Exchange System has an active reinvestment program with new facilities being constructed in locations where the need is the greatest. This year, new main exchange facilities will open at Guantanamo Bay, Cuba; Jacksonville, FL; Naval Shipyard Portsmouth and Naval Base Norfolk, VA. Construction will start soon on new main exchange facilities at La Maddalena, Italy and Key West, FL. Each of these new facilities will significantly change the quality of life in these locations by alleviating inadequate and congested situations which exist today.

Mr. HOLTON. OK, thank you.

Mr. HUTTO. Dr. West, questions?

Dr. WEST. Thank you, Mr. Chairman. I have two sort of involved questions.

One, since the subcommittee was established in 1981, we have been concerned about the funding responsibilities that have migrated from other accounts into O&M. In several cases we have had serious concerns. In a couple of cases I think the committee and Congress as a whole has been generally supportive of the transfer. The first of these included—or at least one of the first of them—was the transitioning of the funding for aviation depot level repairable items from procurement to the stock fund.

The rationale that was given to us at the time was that procurement through the stock fund would be more cost effective and more responsive to fleet requirements than the normal procurement process, which took longer and got tweaked and sometimes short changed over here and in the building.

Now, my understanding was that this was to be sort of a 5 year test and that the test has been completed and that the results have been sent up to OSD. In view of some concern and possible criticism about this transaction, I wondered if you could tell me whether the test results bear out the claims that the procurement of aviation depot level repairables has proven to be more cost effective and responsive since transitioning to the stock fund?

Admiral WALSH. Well, as noted in the opening remarks, the average cost of a repairable in 1985 has gone down approximately 37 percent. So over a 4 year period, we have, while the national economy has been going up on an average of 3½ percent a year, we have come down 37 percent.

If you go back to 1981 and you look at what the Full Mission Capable rate of our aircraft was, it was down in the mid to low 30's. Today, it is in the high 60's. The primary driver of FMC is spare parts. So at the same time we have double our FMC rate, we have reduced the cost by 37 percent in real terms.

So yes, it has been a success. We have signed out the letter to OSD recommending that it become permanent. We are looking for other opportunities to continue that.

Now, with respect to the concerns with the migration to the O&M account, I would make two points. First of all, about half of what is currently in the AVDLR program was in O&M to begin with, since it was in aviation component rework, which was funded out of O&M. The only thing that migrated was the procurement of spare parts.

Second, if you look at the cost right now in O&M and recognize that we are talking about the entire defense budget, the savings that we have made in the O&M account as a result of going into AVDLR's more than outweighs any increase in the migration into the O&M account. We look at the AVDLR program as an outstanding success and an example of good management.

Dr. WEST. Has the test revealed any problem areas that you did not anticipate that may have to be addressed?

Admiral WALSH. We have several things that we are still working on. One of which is making sure that the accounting system is more user friendly. When we first implemented it, it was designed in Washington by Washington bureaucrats and I can say that because I was one of them.

It turned out that we overburdened the fleet with paperwork. We are in the process of streamlining that. I think over the last year and a half we have solved an awful lot of the problems, but we are still looking to improve.

Admiral ARTHUR. If I may, one of the side benefits of AVDLR's from my standpoint, is we have improved tracking of our carcasses. Since there is a credit involved, we are exercising a lot more control on the movement of very high valued spare parts because there is a customer getting a payback in his account by showing up with a carcass. So, we do have some very positive aspects in the tracking system.

Again, we are still working on the procedure to make them a lot more user friendly and more timely.

Dr. WEST. Another initiative that the committee supported was the transitioning of the capital equipment for primarily industrial funded activities from other procurement where they had just—the decade of the 1970's had been I guess a little short of a disaster in the sense that the capital equipment for depots and NADEPS and so forth had just not been able to compete. It had been a situation that looked as if there was no way of fixing this. The proposal from OSD, and I think the Navy was involved in it, was to try to put this acquisition of the capital equipment into the rate structure, the industrial fund, as a cost of doing business. The asset capitalization account was developed and got underway.

Since that time there has been a tremendous amount of criticism directed at the program by GAO, by Congress. As is usually the case, Congressional disapproval usually translates into funding reductions and funding reductions have been relatively substantial.

It seems to me one of the problems with this is that we have been faced with a bunch of horror stories about people using this kind of funding for all sorts of extraneous purposes and the management has not been tight.

By the same token, it seems to me that one of the ways of trying to demonstrate the necessity for this program, because if it is not going to do any better in O&M than it did in other procurement, I mean we have a real problem here, is to try to demonstrate that we are jeopardizing the ability of our in-house operations to remain competitive and be able to do the job.

It seems to me that there has not been that kind of testimony or facts presented to us where we are actually reaching a point where we are jeopardizing the shipyards and NADEPS. Because I think it would have a big impact up here, for example, if we knew we could not put workload into Pensacola or Alameda or Norfolk because we did not have the asset capitalization required to buy the equipment for the newer items of equipment. I do not know of any member who wants to relegate his depot into last generation of equipment. The idea is to stay with technology.

Would you like to comment on that, and whether or not it is getting to a point where this is going to be a factor?

Admiral Arthur. In my opening remarks, I mentioned ACP. It is really not an O&M dollar. But, it accrues out of the industrial funds.

We found, when we were given the ACP program to begin with, that we needed some way to keep our plants modern and efficient, there was not enough discipline put into the system initially. We relied on the fact that those people who had access to the dollars would make the wise choice of what was the best use of them. We have seen them migrate to maybe better wheeled vehicles so they could get from point A to point B a little bit faster. That really was not what we had in mind, although that certainly had some benefits I am sure.

NAVAIR took the lead in trying to clean up our act from the ACP and have now provided you with a very impressive brief that shows what the long range plans are, what they hope to accomplish with those dollars and basically what level of ACP they would like to see and how they would fold that back into their plant structure to get the efficiencies that they want.

I think we are now in a position where we know what discipline to put into the system and how we would spend the very next dollar that shows up in ACP to give us a real time payback.

I have to also tell you about the other services. When I travel with the Joint Logistics Commanders, I find that my Air Force and Army counterparts have now also found that they had the same problem with it as we initially did. I think none of us were pure as we started out. But we all now realize the true benefits that accrue from having that fund. I think if pressed to come and tell some good news stories, we all could now come and give you a before and after of how we mismanaged it at the start and where we really are trying to go in the future and have some good stories to tell in that regard.

Dr. West. I think it is imperative because it is a limper. It has taken heavy hits the last 2 years and the past of least resistance is to go back the same path and hit it again. So I think you have to pro-active in this regard.

Admiral Arthur. That is one of the things we really wanted to do; that is, to make sure that we were all comfortable with how we were managing those funds and whether we did have some disagreements so that we could sort of come before you and give a united front says that we know where we want to go and what needs to be done in the future in this regard.

Dr. **West**. One last question, Mr. Chairman.

As the Chairman alluded to, we have sort of an interesting situation where the U.S.S. *Enterprise* is coming up for a refueling and major overhaul in I guess 1991, 1993. According to the information we have received, phase one of this process is going to cost about $1.2 billion of Navy O&M funds. Phase two, we do not have an estimate yet, but I guess an educated guess would be something that would take it over to $2 billion.

There are two things that strike me when I look at something of this magnitude. First of all, its impact on the Navy ship overhaul budget. For example, in fiscal year 1991, the work on just one ship will consume nearly a quarter of the funding for Navy ship overhauls.

Two, looking at it over time, its similarity to a Service Life Extension Program for conventionally powered aircraft carriers of the same age looks very similar. The SLEPS, of course, have been funded out of SCF.

Under the circumstances and because of the magnitude of this program, I would like to know why is the *Enterprise* refueling and overhaul being done with Navy O&M funds rather than ship construction funds? What kind of impact is this going to have on the Navy's ability to execute its 1991 and 1993 ship maintenance and modernization budget?

Admiral **Arthur**. Of course we have recognized *Enterprise* for some time. We are not surprised at the amount of dollars we have to put in for the overhaul and have been planning for that. We have also been trying to reduce the estimates to keep it within bounds so that we could do it within budget. We have gone into some very severe cost reduction dialog within the building to make sure that we could cap the price of that phase one overhaul and modernization of *Enterprise*.

The decision to treat *Enterprise* as an overhaul versus SLEP, has been worked back and forth for some time. The decision to maintain it as an overhaul was just the choice that we made relative to that ship. We could probably come back around the barn in the other direction and say it is a SLEP and put it in the SCN account, but, it still is a topline adjustment for us one way or the other.

If we have some cost growth in the cost of the overhaul, if we have not planned it just right, it is going to be a lot harder to handle in the O&M account than in the SCN account, where we sometimes have a little more flexibility. We think we done the homework right and we are reasonably content with the cost of it and what we intend to accomplish.

Dr. **West**. Well, I think the point I was trying to get at is that you are right, you have a very intense situation out there in the ship repair field. The fact that one ship is taking up that much of the budget and the fact that the budget may receive some downward pressure and this cost growth in this overhaul is liable to create a very very interesting situation when we have so many public and private yards that are desperate for work that will cost a lot less than $800 million. So I hope that you would keep that in mind as this thing goes forward, because it is not the last time you are going to hear this.

Admiral **Arthur**. No, sir.

[Laughter.]

Dr. **West**. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Dr. West.

Admiral Arthur, General Carson, Admiral Walsh, we thank you for your testimony and for your response to our questions. We do have other questions we will give to you and ask for you to submit your response for the record. We are grateful to you and we look forward to working with you for the betterment of our Navy and Marine Corps.

With that, the subcommittee stands adjourned until 9:30 tomorrow morning.

[Whereupon, at 3:20 p.m., the subcommittee meeting was adjourned.]

[The following questions were submitted to be answered for the record:]

PILOT RETENTION

Chairman Hutto: Admiral Arthur, I understand that the Navy is currently 1,300 short of its requirement for pilots. What is being done in this budget request to address this shortfall?

Admiral Arthur: The Navy currently has a shortage of 1,500 pilots in the grades of lieutenant and lieutenant commander. To help address this shortage, the Navy has requested $29.995 million in this year's budget for the Aviation Continuation Pay Program. This program, enacted by Congress in 1988 and implemented by the Navy on 1 January 1989, authorizes payment of up to $12,000 per year to pilots in the aviation specialties with critical shortages. Although the Aviation Continuation Pay Program is still in the early stages of execution, it appears that it is having the desired effect on the retention of Navy pilots. Continued Congressional support of this program and appropriation of necessary funds are essential if we are to sustain the progress we have made thus far in reducing our pilot shortage.

SHIPYARD CORE WORKLOAD AND WORKFORCE REQUIREMENTS

Mr. Chairman: There seems to be a difference between the Navy leadership and naval shipyard officials on the issue of core workload and core workforce requirements. As I understand it, core workload is the number and type of ships needed by the shipyards in order to retain their capabilities and skills mix to support their overhaul and repair mission. Core workforce requirements are the number of people and skill mix needed to meet mobilization requirements. Shipyard officials have generally stated that they do not know their core workload requirements. The Navy leadership, however, has established core workforce requirements for the shipyards.

If the core workload requirements have not been established for the public shipyards, how can the Navy assure each shipyard's state of readiness and mission capability?

Admiral Arthur: The Navy has determined the core workload requirements for the public shipyards. These basic requirements are identified in OPNAV Instruction 3050.22 (SUBJ: Strategic and Operational Requirements for Naval Shipyards) in terms of types of Navy ships to be supported. The core workload (ships) translates into the core workforce (numbers and skills mix of personnel) and is the springboard capability for mobilization.

Mr. Chairman: Why hasn't the Navy determined these core workload requirements for the public shipyards?

Admiral Arthur: As indicated in the response to the previous question, the Navy has determined the core workload requirements for the public shipyards.

Mr. Chairman: How does the Navy intend to maintain the requirements for core workforce skills and numbers during the periods of work underload at the public shipyards in FY 1990 and FY 1991?

Admiral Arthur: The public shipyard workforce will be sized to ensure that a balance between workload and workforce is maintained. It is anticipated that this will require some drawdown of employment, but that the core workforce will remain sufficient to meet mobilization requirements.

SHIPYARD COST REDUCTION INITIATIVE

Mr. Chairman: As I recall, In May 1985, the Secretary of the Navy directed that the FY 1987 budget request be submitted for $500 million less than the projected costs of planned overhaul and repair work. A similar $500 million reduction was to be made in future budget submissions. I now understand that the Navy projects total savings for the FY 1987 program to be $257 million, and that the actual savings realized to date are over $100 million below that mark?

Since the FY 1987 reduction goal looks like it won't be met, how will the shortfall be absorbed?

Admiral Arthur: The FY 1987 goal has been subject to programmatic changes and savings erosion. Programmatic changes to the FY 1987 fleet maintenance and modernization program has reduced the savings goal to $469.7 million.

Twelve of the ships in the program have not yet been completed. Total savings to date are $209.3 million. Projected total savings on the FY 1987 program are $258.9 million against the revised goal of $469.7 million. This represents a 9.2% operational improvement vice the budgeted 17%. The shortfall has been reflected as an operating loss to the Navy Industrial Fund.

Recovery of this operating loss has been provided for in the FY 1990/1991 budget via passthrough.

Mr. Chairman: What is the effect of not meeting the $500 million cost reduction initiative on the executability of the FY 1990 ship maintenance and modernization?

Admiral Arthur: The Navy expects to accomplish the FY 1990 maintenance and modernization program within the budget controls.

Mr. Chairman: Were similar $500 million reductions made in the FY's 1988, 1989 and 1990 budget submissions and, if so, how will the Navy absorb the shortfalls if the savings goal is not achieved in those fiscal years?

Admiral Arthur: Planning for the FY 1987 program originally was predicated on the funding level before the $500 million reduction. The Navy had only one year to put in place operational improvements and efficiencies to execute the program for the reduced amount. Achieving what equated to a 17% improvement in one year was not possible, but a 9.2% improvement has been achieved.

Unlike FY 1987, the reductions for FY 1988, 1989 and 1990 were made at the total program level and were not identified to specific ships; therefore, these programs years were planned to be executed at the reduced funding level. The 9.2% improvement achieved on the FY 1987 program will be perpetuated as well as additional improvements and costs reductions made as a result of the Navy Industrial Improvement Program recommendations.

PREPOSITIONING FORCE SHIPS

MR. CHAIRMAN: On page 5 of your prepared statement, you indicate that the funding responsibility for nine prepositioning force ships will be transferred to the Army and Air Force. Why is this transfer taking place and how much funding is involved?

ADMIRAL ARTHUR: The funding responsibility for the nine Prepositioning Force ships will be transferred to the Army and Air Force in order to align funding responsibility with the user Service. The total amount of funding transferred in FY 1990 and FY 1991 will be $77.1 million and $78.9 million respectively.

MEDICAL CARE COSTS

ADMIRAL ARTHUR: On page 6 of your prepared statement you indicate that a number of initiatives related to medical services are expected to result in significant savings over the next two years. Foremost among them are CHAMPUS reform efforts to reduce reliance on more expensive CHAMPUS support. Admiral, we have been hearing this refrain for years. Yet every year we are confronted by a significant reprogramming action that requires the transfer of hundreds of millions of dollars to pay for CHAMPUS shortfalls. Why are you so confident that this is not going to occur over the next two years?

ANSWER: Prior to FY-88, the responsibility for management and funding of the CHAMPUS program belonged to ASD(HA). The CHAMPUS Actuarial Projection System (CAPS) is a mathematical model based on the Resource and Analysis Planning System (RAPS) and historical data. The system projects probable future billings by both catchment areas and non-catchment areas. In addition, with the funding responsibility shifted to the services, we have taken a more active role in the funding and management of the CHAMPUS program.

The FY-90 budget includes several initiatives that will result in savings to the overall Navy medical program. These include healthcare contracting, NAVCARE/contractor operated clinics and partnership agreements. The healthcare contracting will increase staffing and patient access to Navy treatment facilities resulting in better facility utilization and a reduction in CHAMPUS use. This is a major focus of the Navy medical budget.

By developing a comprehensive program, the Navy will significantly reduce CHAMPUS costs. The Navy recognizes that the overall demand for healthcare is slowly increasing as the number of retirees and

their dependents increase. We are trying to control the cost increases by finding the best alternatives in each catchment area which will contain costs while delivering quality healthcare. These savings are a partial solution to the planned savings to be realized from the CHAMPUS program.

Savings such as CRI, MEI, and DRG's are new DoD initiatives which also are projected to curb CHAMPUS costs. The Services have taken full credit in their budgets for each of these programs. That is, budget levels have been decreased based on projected savings associated with CRI, MEI, and DRG's.

NAVY SQUADRON AIRCREW MANNING

On page 9 of your prepared statement, you say that Marine Corps squadron aircrew manning is 100 percent, while Navy squadron aircrew manning is 95 percent.

MR. CHAIRMAN: What is the reason for this difference and what impact does it have on readiness? What is needed to correct this shortage?

ADMIRAL ARTHUR: Navy squadron aircrew manning is 95 percent due to the shortage of approximately 1500 midgrade Navy pilots (LT/LCDR). The Marine Corps is not experiencing a shortage of pilots and is able to man squadron at authorized levels. The shortage of Navy pilots is attributed to sustained low pilot retention below Navy goals of 45% retention since FY 1985. Rentention is most affected by airline hiring and family separation. Current airline hiring is at an all-time high and projected to remain steady into the year 2000.

The impact on readiness is minimal since squadrons deploying onboard carriers are manned at 100 percent during deployment. However, if sustained over a period of time, reduced aircrew manning will impact readiness for non-deployed squadron training. The Navy is beginning to improve pilot retention by increasing and targeting aviation bonus programs to pilot communities experiencing shortages. Continued aviation bonuses are essential to retain pilots when airline hiring is high. The Navy has also requested funding for the underghraduate pilot training program to produce first-tour fleet pilots to meet Navy requirements.

AIRCRAFT REWORK

Mr. Chairman: On page 11 of your prepared statement, you say that the growth in the FY 1991 Aircraft Airframe backlog is due to the carry over of the FY 1990 backlog and increased requirements projected by the aircraft service period adjustment (ASPA) model. As I recollect, the ASPA model has generally been used to reduce aircraft airframe reworks by extending the time between overhauls. Why is the ASPA model increasing rework requirements in FY 1991?

Admiral Arthur: ASPA generated standard depot level maintenance (SDLM) requirements vary from year to year based primarily upon the number and mix of aircraft eligible for ASPA evaluation, historic deferral rates, operational environment and other management factors. FY 1991's total aircraft rework requirement reflects this normal variance in then-year ASPA generation and the unfunded requirement carried forward from FY 1990.

AIRCRAFT MISSION CAPABLE RATES

Mr. Chairman: You indicate that the Navy's aircraft mission capable rate goal of 73 percent was achieved in FY 1988, but will slip to 70 percent in FY 1991. How significant is this loss of mission capable rate in terms of air operations or readiness?

Admiral Arthur: The 3 percent drop in mission capability for total force equates to an approximate decrease of 100 available operating aircraft at any one time. In order to maintain primary mission readiness levels with this reduced number of available aircraft, we expect cannibalization rates, maintenance man hours per flight hour and aircraft utilization rates to climb. Judicious management will continue to be required to preclude further degradation to readiness.

Mr. Chairman: You also indicate that the mission capable rate decrease is also caused by funding reductions in Initial Spares and Aviation Depot Level Repairables. What is the relationship between these accounts and why has funding been reduced in these supporting areas?

Admiral Arthur: The initial spares requirement in the Navy's FY 1990/1991 budget submission principally reflects the spares and repair parts required to support the new weapon systems and aircraft which have only recently been introduced into the operating program. These equipments and components, which include engines, are typical systems for which equipment configuration has not stabilized to the point that it is prudent to make a major investment in spares by the supporting Stock Fund and thus supporting spares are procured in the Procurement Title. The elements included under this heading are:

- Spare Aircraft Engines
- Interim Support
- Peculiar Support Equipment (PSE)
- Aviation Outfitting Account Initial
- Modification Spares

The Aviation Depot Level Repairables addressed, commonly referred to as the Aviation Outfitting Account, provides funding to procure the initial investment level of spares required to support a newly sited fleet operating aircraft, from the Department of the Navy Stock Fund.

The primary and irrefutable tie between these accounts is that they both provide for spare and repair part support for Naval Aviation. More specifically, they provide for the initial investment to support new weapon systems and aircraft which are introduced into the operating fleet. While the initial account provides engine support for the entire life of the program, the other elements migrate from initial to the replenishment account as the program evolves and support can be obtained from the Stock Fund.

Fiscal realities in the past several budgets has necessitated that the Navy make significant reductions in resource levels. In doing this, the Department has striven to manage these reductions in a manner that does not reverse the gains in naval war fighting capability achieved in the 1980's and hopefully will avoid the near disaster of the late 1970's. Since there is no single, easy solution to accommodating resource reductions of the magnitude required, the entire spectrum of the budget was examined in an attempt to arrive at reductions which would create in no area more than an acceptable level of risk. Achievement of an acceptable level of risk was the underlying principle that the Department of the Navy followed in formulating this budget.

CONTRACTING OUT INHERENTLY GOVERNMENT FUNCTIONS

Mr. Chairman: On page 12 of your prepared statement, you indicated that Navy civilian personnel requirements are being offset through the vigorous review of Commercial activities, in accordance with OMB Circular A-76. The committee has received testimony twice last year that the current goals set forth in Executive Order 12615 were too optimistic in that they represented a threefold increase in cost studies. Why do you think the Navy is going to be able to meet these goals and how are you going to adjust civilian personnel levels if you cannot complete the required number of studies, or more functions manage to stay in-house than expected?

Admiral Arthur: The current budget incorporates estimated savings based on accomplishing Commercial Activities Studies at the pace prescribed in Executive Order 12615 of November 19, 1987, i.e., conduct annual studies of not less than 3 percent of the department's total civilian population until all identified potential commercial activities have been studied. If budget goals are met, Navy will conclude first time studies on all announced candidates for CA Study during FY 1991. We recognize that the number of positions to be studied is ambitious. Therefore, we have established a procedure whereby requests for waivers or extensions are approved, if warranted, when commanders are unable to complete studies as scheduled. Adjustments are made when manpower level are reviewed during subsequent budget updates. Manpower levels are also adjusted for studies resulting in a determination that the function is more economically performed in-house. Nevertheless, the overall budget reductions made to the Defense budget in recent years required that we make every effort to achieve savings through such proven methods as Commercial Activities studies as rapidly as possible.

HAZARDOUS WASTE DISPOSAL COSTS

Mr. Chairman: I understand that the Navy O&M request reflects the transfer of hazardous waste disposal from Central Supply and Maintenance to the hazardous waste generating activities. How large was this functional transfer and how did you calculate the costs over the next two years?

Admiral Arthur: The functional transfer of funding from the centralized hazardous waste disposal account to hazardous waste generating activities was $38.9 million in FY 1990 and $40.1 million in FY 1991. These estimates were based on prior years execution results and projected program requirements with consideration given for the Navy's hazardous waste minimization program.

Mr. Chairman: Given the fact that a "land ban" is going into effect this year for the disposal of certain types of hazardous waste and the incineration costs are going up by orders of magnitude, how confident are you that the Navy's cost estimates are going to be realistic?

Admiral Arthur: The Navy has developed its hazardous waste estimates based on prior year execution results and projected program requirements that were identified at the time of submission less reductions resulting from our Navy minimization efforts. These estimates reflect our best projections based on available information at that time. Future disposal costs may well increase, if the amount of disposal sites or companies decrease.

Mr. Chairman: If Navy's cost projections are seriously understated, how are the hazardous waste generating activities going to handle this increase---take it out of hide?
Admiral Arthur: Our budget estimates reflect the best available current information. If requirements change, program execution and funding will be re-examined.

Mr. Chairman: What is the Navy doing to minimize the generation of hazardous waste and how much is being budgeted to support this effort?
Admiral Arthur: Navy is instituting a hazardous waste minimization program with the stated goal of a 50 percent reduction in hazardous waste by the end of FY 1992. A technical transfer team has been established to assist activities in minimizing hazardous waste generation and to help put in place the required technology to complete this effort. A total of $9 million in Defense Environmental Restoration funds has been made available in FY 1989 to finance this technical assistance group in the purchase of new technology equipment and for research and studies to change existing processes.

WASHINGTON NAVY YARD

QUESTION: I understand that the budget request includes $8 million for costs associated with the renovation of existing facilities at the Washington Navy Yard. Why is this renovation going on at a time when funding is so tight and what kind of projects are you talking about?

ANSWER: The $8 million increase in the budget request is not for costs associated with the renovation of existing facilities at the Washington Navy Yard (WNY), but rather supports BA9 Maintenance of Real Property special projects required to maintain reliable utility operations at WNY and prevent silting of the Anacostia River. A breakout of these projects are as follows:

Project	Location	Project Description	$Millions FY-90	FY-91
Execution				
RC1-86	NDW	Elect. dist sys, WNY, Phase IV	$2.3	$ -
RC1-86	NDW	Elect. dist sys, WNY, Phase V	2.0	-
RC1-88	NDW	Fill stabilization, ANA	0.6	-
R43-87	NDW	Replace boilers 1 & 2, WNY	1.9	-
RC84-87	NDW	Repair condensate return, WNY	0.6	-
Design				
R7-82	NDW	Repair H_2O dist sys, WNY, PH III	$0.1	$ -
R23-85	NDW	Repair steam dist, WNY, PH II	0.3	-
R21-85	NDW	Replace storm drains	0.2	-
Total			$8.0	$ -

The budget request does include a slight increase for additional BA9 Base Operations Support requirements, associated with MILCON project P-260 which converts Bldg. 36, WNY from warehouse-like space into habitable office space. This increase, $0.3 million beginning in FY 1990, will fund additional heating, lighting and cleaning requirements associated with this MILCON conversion, valued at $15.7 million.

AVIATION DEPOT LEVEL REPAIRABLE TEST

Mr. Chairman: About five years ago, Congress went along with a five year Navy test program to begin funding the procurement of Aviation Depot Level Repairable items in the Stock Fund, instead of the procurement accounts. According to Navy testimony at that time, procurement through the stock fund would be more cost effective and more responsive to fleet requirements than the normal procurement process.

I understand that the test has been completed and that the results have been provided to the office of the Secretary of Defense. Did the test results bear out the claims that procurement of Aviation Depot Level Repairables are proven to be more cost effective and responsive?

Admiral Arthur: Stock funding of Depot Level Repairables has been one of the Navy's great success stories, with significant benefits being realized in force readiness. This was especially true for the Aviation Depot Level Repairables (AVDLRs) test program. The concept of stock fund financing has allowed Navy to fully fund both its procurement and repair requirements. The flexibility inherent in this concept facilitates reprioritization of material support decisions much closer to the actual execution than through the appropriation process. While not the sole or primary reason, stock fund financing of AVDLRs has certainly been one of the principal drivers in achieving the record aviation readiness rates the Navy is experiencing today.

The AVDLR test began on 1 April 1985 and was completed on 31 March 1988. During this three year test period, improvements in material availability have contributed to improved responsiveness to fleet requirements for AVDLRs as indicated in the following:

- Average number of Outstanding Not Mission Capable Supply/ Partial Mission Capable Supply requisitions declined by 69%.
- Supply System Material Availability for AVDLRs improved by 12%.
- Off ship Not Mission Capable Supply/Partial Mission Capable Supply requisitions declined from an average of 55 per ship to 17 during test period.
- Backorders for Aviation Depot Level Repairables dropped by 11%.
- 17% decline in Requisition Delay Time for all AVDLR requisitions.
- Mission Capable/Full Mission Capable (MC/FMC) rates for deployed aircraft improved 9.1% and 26.2% respectively.
- Average price of material for the customer in FY 1989 was 36.8% lower than in FY 1985.

Mr. Chairman: One of the concerns that Congress has had about expanding the use of the Stock and Industrial Funds to support new programs and activities has been the relative lack of visibility or oversight of those funds. You can go to the P-1 book to see how many repairable items are being acquired in the procurement request, but I am not aware of any similar documentation for Stock Fund Procurement actions. Moreover, the cash position of the Stock Fund and Industrial Fund are affected by a host of different transactions that make it difficult to focus on the cause and effect relationship of one program. Under the circumstances, how can Congress have confidence that this initiative is working well and how can it maintain oversight of the procurement of Depot Level Repairables?

Admiral Arthur: When the Navy stock funded Depot Level Repairables (DLRs), it established a buyer/seller relationship with its customers. Customer accounts were augmented, as appropriate, in recognition of the higher operating cost due to the incorporation of DLRs as an expense element. Through this process the user assumed responsibility for all costs related to aircraft and ship operations. Under this scenario, the perspective Congress has is one of the direct cost associated in support of fleet operations. This is a true measure of how well this initiative is being managed and provides far greater insight than that obtained by assessing the acquisition of DLRs on a stand alone basis.

A comprehensive summary of the Department of the Navy Stock Fund operations, including procurement and performance data relative to DLRs, is provided in the Stock Fund Overview, submitted to Congress as part of the justification data to support the Department of Defense budget submission. This overview provides comprehensive data concerning all DoD stock fund operations, including the Navy DLR program management.

Question: Looking over the Department of the Navy O&M Budget request, one is struck by the fact that the Navy request shows a slight increase over last year, but that the Marine Corps request reflects a 9 percent real growth reduction. It appears to some of us that either the Marine Corps was victimized during the Department of the Navy budget process, or that this represents a ploy to get Congress to provide more money for the Marine Corps. How do you explain this significant reduction in Marine Corps O&M real Growth?

Answer: The Marine Corps was not victimized during the Department of the Navy budget process nor is this a ploy to get Congress to provide more money for the Marine Corps. The O&MMC budget received its fair share of the FY1990/1991 Total Obligational Authority (TOA) remaining after military personnel costs were fully funded. The TOA split between blue and green dollars is based on all programs - manpower hardware, R&D and O&M - competing equally in the programming process. In this regard the Marine Corps is manpower intensive and the Navy is capital intensive. When, as in the case of FY 90/91, there was a requirement to fund military pay raises from available TOA, the Marine Corps was required to absorb a proportionately larger share in its remaining programs. Additionally, the matter of blue-in-support-of-green funding must also be considered wherein the Marine Corps share of this funding increased in FY1990.

Question: If you are able to take a 9% reduction, in real terms, and still maintain readiness and quality of life, weren't you overfunded in the past?

Answer: No, we were not overfunded. What we have done is to balance all of our resources within the funding that we anticipate. This includes not only the Operation and Maintenance accounts, but the Manpower and Investment accounts also. As I have indicated in my statement for the record, this is an austere request and this does not fund everything that we would like to do.

Question: Then how much of these reductions will merely lead to backlog increases, and how much to other effects and what are these effects?

Answer: Because of the reductions that this request contains, we will experience increased backlogs in two principal areas; depot maintenance and the maintenance and repair of real property. Other effects include reduction in the number, size, and scope of exercises; and supply and maintenance support both to the Fleet Marine Forces and at our post and station activities.

Question: It seems that you reduced O&MMC by 9% in real terms, but did not reduce civilian personnel. Do you really have a balanced program?

Answer: Yes we do. A very important reason for not reducing civilian personnel is that in an effort to keep as many Marines as possible in the Fleet Marine Force units, we reduced the number of Marines in the supporting establishment by about 3,000. To concurrently reduce civilian personnel at the same locations, would effectively create an unbalanced program.

Question: One of the glaring aspects of the current Marine Corps O&M budget request is the reduction of major exercises by 50 percent. Yet, in your testimony you seem to be saying that the Marine Corps is changing its training strategy to be more relevant, equally effective, but less costly. Could you expand on the less costly but equally effective training techniques you are adopting?

Answer: First, we have instituted a program of Marine Battle Skills Training which will provide every Marine the necessary combat skills to survive in a hostile environment. This, of course, is not a cost saving measure but in fact will require additional resources to ensure that all of our Marines have been afforded the training to obtain essential combat skills. Second, in order to apply the resources necessary for the Marine Battle Skills Training we will be reducing the number of exercises that we will be participating in. In order to do this we will be looking at combining like type exercises, training closer to home, and increasing the amount of small unit and individual training. The result will focus on low to mid intensity conflict which is the most likely employment for Marines.

Question: By the end of FY91, will all of the hardware you acquired during the earlier part of this decade still be properly maintained and equipped?

Answer: As I indicated in my statement for the record, we fully intend to maintain the investment that has been made over the last several years. We have stated that we can live with these funding reductions in the very short term. By the end of FY91, we will have some increase in our maintenance backlog. Of course we don't want to see the backlogs continue to increase. We think we can keep the backlogs stable with increased funding in the long term.

Question: On page 6 of your prepared statement, you have a chart showing depot maintenance funding and backlogs. It looks to me that Marine Corps Depot Maintenance backlogs will triple by the end of Fy 1991. What kind of impact will this growing backlog have upon Marine Corps readiness and capabilities?

Answer: If the backlog continues to grow at the current rate beyond FY 1991 readiness will be affected. The backlog through FY 1991 will consist mainly of those items that impact sustainability and not that which is in the hands of the Fleet Marine Forces. However, if the backlog continues to grow beyond FY 1991 items will migrate to the backlog which will have a direct impact on readiness and the corresponding combat capability of the Fleet Marine Forces.

Question: How much additional funding can the Marine Corps depots at Barstow and Albany absorb to reduce the projected backlog in FY 1990 and FY 1991?

Answer: We think that additional funding of about $15 million per year would give us a program that would reduce and eventually eliminate the backlog at our Marine Corps Logistics Bases at Albany and Barstow.

Question: If additional funding is not forthcoming, how much larger do you feel the Marine Corps depot maintenance backlog can get before it becomes critical?

Answer: We don't think that the backlog should get any larger. If it continues to grow beyond the level indicated in FY 1991 we can anticipate negative effects on our readiness and sustainability.

Question: On page 8 of your prepared statement, you mention the development of a support establishment master plan as a comprehensive method of trying to prioritize activities, functions and services to support the training and readiness of the Fleet Marine Forces. I would assume that one of the key features of such a plan involve the maintenance of real property. Yet on the next page, I see that real property maintenance funding remains level while BMAR grows by 50 percent. How is the support establishment master plan expected to succeed if these funding trends continue?

Answer: With the austere funding that we will be experiencing, the supporting establishment master plan will be one of the essential tools to identify and ensure that the most urgent projects that have impact on Fleet Marine Force operations are executed.

Question: If unfunded requirements force you to look at deferring more real property maintenance over the next two years, how large does the BMAR backlog have to grow before becoming critical?

Answer: In order to absorb the large reductions to O&MMC in FY90, MRP has been cut to what we consider a minimal operational level. We do not anticipate making further reductions to MRP over the next two years. In the long term additional funding will have to be applied to MRP in order to stabilize and reduce the backlog. To insure MRP is not used to meet other unfunded requirements at the base level, CMC has set a Maintenance Target for each installation. At the HQMC level we prioritize all major MRP projects, placing an emphasis on operational, training, maintenance, and utility requirements. We insure the most important projects are funded, deferring only those which can be delayed for the short term without irreversible damage to the facility.

Question: If Congress were to decide to provide additional funding for the FY 1990 Marine Corps O&M request, what priority unfunded requirements would you seek to address?

Answer: We would address Fleet Marine Force operations and training, equipment maintenance and base operations to include maintenance of real property.

DOD INVESTIGATORS AND SERVICE AUDITORS

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Wednesday, March 8, 1989.

The subcommittee met, pursuant to notice, at 9:30 a.m., room 2216, Rayburn House Office Building, Washington, D.C., Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will please come to order.

Today, the subcommittee will begin a series of hearings on the Roles and Effectiveness of Auditors and Investigators within the Department of Defense. This is a continuation of hearings that began several years ago and is an indication of congressional interest in developing and maintaining audits and investigative organizations within DOD.

Congress continues to support these organizations and would authorize over $500 million for their operating costs during 1990. While congressional support has never been stronger, there is a growing dissatisfaction on the part of some that the focus of many of the audits is too limited and not directed at high-level procurement problems.

One bill has already been introduced to create an independent inspector general outside the Department of Defense. At the same time, a number of business leaders have complained that there is too much auditing going on and the number of audit organizations should be scaled back.

There are presently over 22,000 persons involved with audit, investigation and inspections within DOD. In addition, the General Accounting Office devotes almost half of its resources to defense issues. There seems to be adequate resources in this area, but perhaps there needs to be a better way to organize and control them.

So, we want to welcome the Hon. June Gibbs Brown accompanied by the Deputy Inspector General, Mr. Derek Vander Schaaf, but first, I would like to turn to my colleague, the ranking member of the subcommittee, Mr. Kasich.

Mr. Kasich. Thank you, Mr. Chairman.

I will just put my statement in the record.

Mr. Hutto. All right. Without objection.

PREPARED STATEMENT OF HON. JOHN R. KASICH, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

Thank you, Mr. Chairman. I would like to welcome our panel of witnesses, Ms. Brown and Mr. Vander Schaaf from the DOD Inspector General's Office, Mr. Reed from DCAA, and Mr. Shaffer from the Navy. I would also like to take this opportunity to express my appreciation to the men and women who perform the audit functions for the Department of Defense and the services. No audit organization anywhere else—either in the Government or the private sector—has the complexity and scope of the defense audit mission. We in Congress are dependent on their good judgment.

Last year this subcommittee held a series of hearings on contractor inventory systems, and both the DCAA and representatives from the DOD IG were of enormous help to us. I hope today's witnesses will be able to give us a better understanding of the significant savings that proper auditing can achieve, and in particular, I hope they have specific suggestions as to how the defense audit function can be made more efficient.

Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Martin, do you have an opening statement?

Mr. MARTIN. No, Mr. Chairman.

Mr. HUTTO. All right. If you would please come forward, we are delighted to have you with us. Ms. Brown, you may begin and proceed as you see fit.

STATEMENT OF HON. JUNE GIBBS BROWN, INSPECTOR GENERAL, DEPARTMENT OF DEFENSE; ACCOMPANIED BY: DEREK VANDER SCHAAF, DEPUTY INSPECTOR GENERAL

Ms. BROWN. Thank you, Mr. Chairman.

It is a real privilege to be before this subcommittee, which has such a longstanding interest in the work that we have been doing. I have Mr. Derek Vander Schaaf, my Deputy, with me.

I would like to just summarize my statement if I might. I, as each statutory IG, have responsibilities for conducting and supervising audits and investigations; for promoting efforts to prevent fraud, waste, and abuse in DOD operations; for reviewing legislation and regulations that affect the department; and keeping the agency head, as well as the Congress, informed of our activities.

DOD has some unique responsibilities and provisions in the IG Act: One of those provisions gives the Secretary authority to stop certain activities, whether audit, investigation, or the issuance of subpoenas, for specific reasons, i.e., the National Security. Those powers have never been exercised in the Department of Defense.

Another unique DOD provision is that we have only responsibility for 5 percent of the resources that are devoted to these oversight activities. The other 95 percent are with DCAA and with the service entities, both the audit and investigative organizations.

We do, however, provide policy and oversight of those organizations. There are ten DOD audit organizations and three criminal investigative organizations. In that capacity, we issue directives, manuals, standards, etc. and we provide vigorous oversight reviews. We have made sixty-eight reviews to date over the other entities within the Department.

You asked for information about recent reviews of the Naval Audit Service. We have been looking at the corrective actions taken as a result of both our review and that of the GAO.

The report will be issued in July, and we feel that there are some substantial changes in the way the Naval Audit Service has been operating, and we feel that there have been improvements.

For instance, the potential monetary benefits in 1988 were $954 million. That is contrasted with $6 million reported in 1985. This is a result of their doing broader reviews.

They have also taken a number of other corrective actions that we feel have resolved the major problems that this committee has been concerned about.

We also have a criminal investigative oversight office, and it has responsibility for the Naval Investigative Service, Air Force Office of Special Investigations, the Army Criminal Investigative Division, and the Defense Criminal Investigative Service (DCIS) of my office.

Most of the military investigative organizations have a different emphasis than DCIS. They look at things like narcotics violations, theft, arson, murder and other activities on the bases. In addition to that, of course, they do some of the procurement fraud-type investigations that DCIS does.

We closely coordinate with them, do many joint investigations, and we perform oversight reviews of their operations. We also provide fraud awareness training under this policy and oversight function, and coordinate the issuance of IG subpoenas. Twenty-four hundred have been issued to date, and 679 were issued in fiscal year 1988 alone.

It has proven to be a very effective tool for us getting our jobs done. However, I feel that we could do significantly better if we also had testimonial subpoena authority. That is a definite lack in our capabilities.

This office also coordinates the voluntary disclosure program. So far, we have had a 123 matters entered into the voluntary disclosure program by sixty-nine contractors. There has been almost $56 million voluntarily returned to the Government. There have been two convictions of contractors, nine of individuals, and another indictment of an individual pending trial.

So this, too, has proven to be a very effective program. However, right now, we are trying to more clearly define what constitutes cooperation between the contractor making the disclosure and the Government. It is an open issue, and we are trying to resolve that with the Department of Justice.

There has been a slowdown in the number of disclosures pending this resolution and I feel it is absolutely necessary to resolve that matter in order to continue with this program.

DOD is also unique in having the audit follow-up function. Our audit follow-up office prescribes the policy and oversees the tracking of the 80,000 reports issued annually in DOD. It is now about the largest and most complex program in the Government.

We are also unique in the fact that we provide audit coordination. With over 11,000 auditors, plus over 2,000 staff-years devoted by GAO to audit in DOD, that coordination is a significant challenge.

DOD's audit operations that are outside of the Office of the Inspector General have had significant results. 19,000 internal audit reports have been issued with $14.2 billion in potential monetary benefits. Seven point seven billion dollars have already been achieved thus far.

We have 442,000 contract audit reports issued with over $50 billion in savings. I know that the DCAA will be talking to you later, and I will leave the rest of that reporting to them.

Our own audit staff is the largest component in the Office of Inspector General. We focus mainly on multi-service and cost-cutting issues with over 60 percent of our effort in the acquisition area.

Over 1,200 reports have been issued so far with potential monetary benefits of $8 billion. Four billion have been realized. Over 5,000 recommendations have been carried out. They have created numerous changes to the acquisition regulations and policies, functional realignments, and recoveries of over-payments to contractors.

We also have an organization known as Inspections. This is the traditional IG function in the military. The DLA IG Office was transferred into the Defense IG Office when it was created, and it has been refocused to cover all defense agencies and DOD components that do not have military IG coverage. Our inspectors conduct both organizational and functional reviews.

I do not have the authority to prescribe the policy for the military Inspector General organizations, but we do spend a good deal of time coordinating our efforts.

Another function in my office is the Hotline, and it is a highly-visible one. We opened 1,400 cases in 1988 and received about a thousand calls and letters a month on the Hotline.

Our special inquiries function specializes in non-criminal-types of investigations. About 25 percent of the 300 that were opened in the last year were due to congressional inquiries and requests.

We have the Defense Criminal Investigative Service (DCIS) as part of my office. DCIS is the premiere organization, in my opinion, in the procurement fraud investigative area. In 1988, which was our most successful year, we had 319 indictments, 299 convictions, $207.5 million recovered, 135 contractor suspensions, and 319 debarments.

The Military Investigative Organizations also are working in the economic crime area; and in that area alone, they have had 439 indictments, 380 convictions, $238 million in recoveries, and 297 contractor suspensions with 360 debarments.

Congress, I believe, was very wise when they determined that the IG will also have the responsibility for prevention, and we spent a good deal of our priority time on that. We find most Government contractors are honest just as most Government employees are, and they are trying to do the right thing. So, it is critical that we provide them with the proper information so that they know exactly where they stand.

We have both fraud and ethics awareness training and provide many publications to accomplish this. The latest one, which I provided to the committee members, is a handbook on ethics. It was just published in January and over 17,000 copies have been distributed so far.

My last item, you asked for information on the IG resources. The President's budget includes for 1990, 1,531 civilian personnel and 1,501 of those are funded at $95.8 million. For 1991, we also have

1,531 civilians, same number funded, at $97.6 million. That is the same end strength that is authorized in 1989, but we are funded for only 1,436 in 1989.

In addition, I might mention that we have thirty-six military members in each of those years.

I would be happy to answer any questions the committee may have.

PREPARED STATEMENT OF HON. JUNE GIBBS BROWN, INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today, together with Mr. Derek Vander Schaaf, my Deputy, to discuss the operations of my office and the status of Department of Defense audit, inspection and investigation programs. This Subcommittee has shown a keen interest in improving DoD management and has paid particularly close attention over the past several years to the effectiveness of DoD audit operations. I appreciate your strong support for aggressive, effective efforts to identify management weaknesses and wasteful practices which drive up costs and retard force readiness. I also appreciate your longstanding interest in the effectiveness of DoD efforts to implement recommendations for corrective action and management improvement.

I will begin this statement by briefly summarizing the missions and functions of the Office of the Inspector General, DoD. I will then discuss my staff's efforts in each functional area, putting those efforts into context by addressing our relationship to the audit, inspection and investigative activities of other DoD components.

Inspector General, DoD, Responsibilities

The Inspector General Act established the statutory IGs to:

-- conduct and supervise, audits and investigations relating to the Department's programs and operations;

-- provide leadership and coordination, and recommend policies designed (a) to promote economy, efficiency and effectiveness in Federal programs and operations, and (b) to prevent and detect fraud and abuse in those programs and operations;

-- review existing and proposed legislation and regulations relating to agency programs and to make appropriate recommendations; and

-- keep agency heads and Congress fully and currently informed about program deficiencies and problems, including the necessity for and progress of corrective actions.

The structure of the audit, inspection and investigation community in the DoD, and the relationship of the statutory Inspector General to most of that community, is different from most other Federal agencies. Most statutory Inspectors General have direct control and supervision over all audit and investigative resources within their respective departments or agencies. In contrast, I have under my direct operational control only about 5 percent of the approximately 22,000 personnel assigned to DoD audit, inspection and investigative organizations. However, in addition to conducting audits and investigations of Defense programs with my own audit and investigation staffs, I am responsible for providing policy guidance and evaluating the performance of the other ten DoD audit organizations and three DoD criminal investigative organizations in the Military Departments. I have the authority to request assistance from other audit, inspection and investigative organizations of the Department for the accomplishment of my statutory responsibilities.

The Inspector General Act also gave me the responsibility to develop policy, evaluate program performance and monitor actions taken by all components of the Department of Defense in response to audits and internal reviews. Again, that differs from most agencies, where audit followup functions are assigned to management officials.

The IG Act further requires that I give particular attention to the activities of all DoD audit, inspection and investigative organizations of the Military Departments and the General Accounting Office to avoid duplication and to ensure effective cooperation.

Audit Policy and Oversight

In accordance with the IG Act, my office provides policy direction, coordination, and oversight of DoD audit activities. The Assistant IG for Audit Policy and Oversight issues policy directives and manuals prescribing audit standards, policies and procedures to be followed by all DoD audit organizations. To ensure compliance with those prescribed policies and to assess the effectiveness of audit operations, we have a vigorous, continuing program of oversight reviews. Since 1982, my staff has carried out 68 oversight reviews of DoD audit organizations and made hundreds of specific recommendations to improve audit operations. I report the results of those reviews in semiannual reports to the Congress.

About one year ago I testified before this Subcommittee on the results of our quality assurance review of the Naval Audit Service (NAS) and a subsequent review of that organization by the General Accounting Office. In response to the General Accounting Office report and hearings before your Subcommittee, I made a commitment to conduct a followup review to evaluate the management actions taken on the recommendations in these two reports. The followup review was initiated by my office in February 1989. It should be completed by July 1989. You requested that, at this hearing, I give a status of the corrective actions taken by NAS.

Both our tracking of management actions on the prior recommendations and the subsequent oversight reviews performed by my office indicate that the Naval Audit Service is making significant strides in compliance with recommendations and in improving overall audit effectiveness. To illustrate, in FY 1988 the Naval Audit Service reported potential monetary benefits of $954 million resulting from its audit activities, in contrast to only $6 million in 1985. We have reviewed these estimates in detail. The improvement indicates that the Naval Audit Service is focusing its audit resources on broader issues and more significant Navy programs and operations.

The Naval Audit Service advised us that it has discontinued the use of marginally productive standardized audit programs; issued policy clarifications to address concerns raised by the GAO and my staff; instituted requirements for documenting in workpapers why findings or recommendations are dropped; established an independent referencing system to ensure that audit reports are accurate and contain all reportable findings; performed more prepublication reviews of draft reports at the headquarters level; issued guidelines for better coordination of multi-location audits; instituted additional controls to preclude undue command influence over audits; affirmed the Deputy Auditor General position will be filled only by an official with audit experience; and civilianized its regional audit director positions. Our oversight review will focus on the adequacy of these and other actions taken by the Naval Audit Service to improve its effectiveness.

The OIG Audit Policy and Oversight staff is also actively developing enhanced audit training and in providing such practical assistance as "fraud indicator" handbooks for field auditors. These services complement the duties of establishing policy and conducting oversight reviews.

Audit Coordination

The DoD has over 11,000 auditors. The largest audit component is the Defense Contract Audit Agency, with over 5,000 personnel. The GAO also performs several hundred reviews annually of DoD programs. The task of coordinating such a large scale effort to ensure adequate coverage, while avoiding duplication, is a significant challenge. Before the OIG, DoD, was established, coordination was essentially left to individual audit teams. We now have established mechanisms for the systematic exchange of audit plans between audit organizations; initiated a coordinated program of DoD-wide audits; and instituted a process whereby DoD audit organization heads and I meet frequently to coordinate our efforts. Moreover, my office serves as the central DoD liaison point with the GAO. All GAO reviews affecting the DoD are announced through my staff, and we monitor the progress of each GAO effort. We arrange and attend the GAO entrance and exit conferences, coordinate the agency responses and follow up to ensure corrective actions are implemented on GAO reports. By fulfilling these responsibilities we can also minimize audit duplication between DoD and GAO activities.

The OIG, DoD, has been working with the DoD acquisition community to reduce duplicative Government oversight in contractor plants. In 1985, we reported that the "overauditing" which was causing many reputable contractors concern was, in fact, a result of too many overlapping reviews by other Government program managers, technical specialists, and other oversight personnel, not by auditors per se. Since then, we have seen some progress, although more needs to be done.

We also initiated a program to encourage contractors to develop and maintain effective internal controls. Successful contractors could reduce the burden of government audit of their plants, and permit DCAA audit resources to be concentrated on known problem areas, rather than on areas where contractors could demonstrate reliable internal controls. This effort, known as the Contractor Risk Assessment Guide (CRAG) Program, is one of the primary DoD initiatives for promoting and supporting defense industry self-governance. The OIG, DCAA, DoD acquisition officials, and industry representatives worked throughout last year to develop the CRAG, which has now been issued. There has been extensive industry interest and I expect broad participation.

DoD Component Audit Operations

Mr. Chairman, I note that you are hearing testimony this afternoon from two other DoD audit organizations, the Naval Audit Service and DCAA. They will address their specific programs. Without going into excessive detail, I will merely summarize the achievements from FY 1982 through FY 1988 of the DoD audit agencies over which I have oversight, but not day to day control:

-- 19,000 internal audit reports issued;

-- $14.2 billion in potential monetary benefits identified in internal audit reports, with $7.7 billion documented as achieved to date;

-- 442,000 contract audit reports issued;

-- Over $50 billion in savings and cost avoidance realized from contract audits; and

-- thousands of improvements achieved in internal controls, procedures, and regulatory compliance. Although such achievements often do not result in quantifiable savings, they are vitally important to the proper, efficient operation of defense programs and to the readiness and effectiveness of the Armed Forces.

IG, DoD, Audit Operations

The largest component of my organization is Audit. We have an extensive audit program which focuses primarily on cross-Service or multi-program issues. Since 1982, we have devoted over 60 percent of the IG, DoD, audit effort to acquisition programs, the area with the greatest vulnerability to fraud, waste and mismanagement. Through FY 1988, we issued 1,163 final audit reports and identified potential monetary benefits of $8 billion. Management has taken responsive action on over 5,000 of our audit recommendations and achieved an estimated $4.1 billion in savings and cost avoidance to date. Our recommendations have resulted in numerous changes to the Federal Acquisition Regulation and to DoD directives and regulations; the realignment of functional responsibilities among DoD components; recoveries of overpayments from contractors; improved internal management controls; increased safety; improved readiness; more realistic planning; and more accurate reporting of financial or program data.

Overall Results from IG, DoD, Audits

I was pleased to report to the Congress last fall that, in FY 1988, $2.1 billion in potential monetary benefits were reported by OIG, DoD, auditors. This amount exceeded the highest previous annual total by $.7 billion, or 50 percent. The DoD audit resolution procedures, whereby I can elevate the issue of any nonresponsive management reply to my reports to the Deputy Secretary of Defense for decision, has been tremendously helpful in ensuring close management attention to our findings and recommendations.

We will continue to audit all aspects of the acquisition process, from procedures for requirements determination through program execution and contract administration. I will be careful, however, to provide for adequate coverage in other vital management areas such as logistics, financial management, military health programs and personnel administration. We actively solicit suggestions for future audits (and inspections) from the Office of the Secretary of Defense, the Joint Staff, the Unified and Specified Commands, and the Military Departments and Defense Agencies. Currently we are also trying to reinforce the linkage between our audit efforts and the DoD internal control assessment process and Management Improvement Program. The staff of the Comptroller, DoD, has been very supportive of that concept.

Inspections

"Inspections" is the traditional military IG type of review. The Congress incorporated the Office of Inspector General, Defense Logistics Agency, into the OIG, DoD, in December 1982. Since that time, we have refocused the OIG, DoD, inspection effort to cover all Defense Agencies, Headquarters elements, and other DoD components which do not receive routine inspection support from a Military Department IG. Moreover, we have implemented a program of functional inspections, which assess management effectiveness and efficiency in programs which cut across DoD components.

The IG Act does not prescribe standards and policy for the inspection operations of the Military IGs. I do coordinate our audit and inspection efforts with them. I also prescribe policy and oversee efforts in administrative inquiries related to Hotline referrals and other areas in which the Military IGs are active.

Followup

Audit and inspection efforts cannot be fully effective unless there are sound measures in place for reaching authoritative decisions on disputed reports, for tracking the status of agreed-upon corrective actions, and for identifying instances of inaction or justified slippage. The 1982 IG Act Amendments prescribed that the IG, DoD, would monitor managers' followup actions within the DoD. Most statutory inspectors general do not have that responsibility, which has proved to be very beneficial and workable in DoD. My office has a separate staff for prescribing DoD followup policy and for monitoring its implementation throughout the Department, as well as for tracking the status of various types of audit reports.

The task of ensuring proper followup on the over 80,000 audit and internal review reports issued annually in the DoD is a formidable one. The DoD has the largest and most complex audit followup systems in the Federal Government. While the DoD component systems still have some problems, on balance they are quite effective. We put great emphasis on seeking continued improvement.

DoD Hotline

The DoD Hotline provides one of our highest visibility tools for detecting abuses. We screen all calls and letters carefully. We pursued 1,400 matters stemming from Hotline information in FY 1988. Thirty-six percent were related to procurement or contracting matters. Generally the allegations are fully or partially substantiated in about one third of the cases opened.

Special Inquiries

The Special Inquiries staff investigates non-criminal matters such as abusive or improper behavior by Government officials, poor managerial judgment, or inefficient practices. Many of the requests for investigations come from Members of Congress, based on constituent complaints. We perform about 500 non-criminal, addministrative inquiries annually.

Criminal Investigation Policy and Oversight

As previously noted, although I am responsible for providing policy, guidance, and oversight for the Defense criminal investigative organizations (DCIO), I do not have operational control over them (Army Criminal Investigation Division, the

Naval Investigative Service and the Air Force Office of Special Investigations). The military criminal investigative organizations have broad investigative responsibility including narcotics violations, theft, arson, murder, assault, rape and other such crimes on military bases. The primary focus of the Defense Criminal Investigative Service (DCIS), over which I do have operational control, is on procurement fraud.

My Criminal Investigation Policy and Oversight staff conducts oversight reviews and issues pertinent policy documents to improve the performance and effectiveness of all of the DCIO's. In addition, they have prepared a number of well received publications dealing with various types of fraud. They provide training to operational personnel to recognize fraud, and train auditors and investigators in the intricacies of fraud in the procurement process.

The Assistant IG for Criminal Investigation Policy and Oversight also coordinates the issuance of IG subpoenas and the DoD Voluntary Disclosure Program.

IG Subpoena Authority

Pursuant to Section 6(a)(4) of the Inspector General Act, I have the authority to issue subpoenas for the production of records, papers, and other documentary evidence. During fiscal years 1983 to 1988, 2,412 subpoenas were issued under that authority, including 679 subpoenas in fiscal year 1988. Those subpoenas supported investigations by the DCIS and the military criminal investigative organizations.

The IG subpoena authority has proved to be an effective investigative tool. Broadening the authority to provide testimonial subpoena power would further enhance its effectiveness.

Voluntary Disclosures

We encourage contractors to voluntarily disclose potential civil or criminal fraud to the DoD. The Voluntary Disclosure Program has been in existence since July 1986. As of February 1, we admitted into the Voluntary Disclosure Program 123 matters disclosed by 69 contractors. The Government has recovered $55,579,604; there have been two convictions of contractors and nine of individuals, and one indictment of an individual pending trial.

As a result of our experience to date, my office and the Department of Justice have been working on a new standard Voluntary Disclosure Agreement to be executed by the Government and contractors admitted into the Program. The new agreement will clarify what is meant by "cooperation"; the meaning has proven to be an issue in several cases. Lack of clarification and agreement may discourage contractors from making disclosures so it is important that any disagreements be promptly resolved.

Criminal Investigation

In 1981, the DoD had no well trained cadre of fraud investigators to focus on abuses in the acquisition area. One of the primary successes of the OIG, DoD, has been the evolution of the Defense Criminal Investigative Service (DCIS) into one of the premier procurement fraud investigating agencies in the world. We have given top priority to those investigations involving product substitution, mischarging of costs, fraudulent defective pricing, and schemes which undermine the integrity of our contracting system, such as bribery, kickbacks and antitrust matters. FY 1988 was DCIS's most successful year to date as measurable by statistics. We had 319 indictments; 299 convictions; $207.5 million in fines, recoupments, and other restitution; 135 contractor suspensions and 319 debarments. DCIS is currently carrying the heaviest caseload since its creation:

over 1,200 open investigations. Despite the growing case inventory, budget constraints have forced us to slightly reduce the size of the investigative staff.

In addition to the achievements of the DCIS, I want to call attention to the accomplishments of the military investigative organizations. For FY 1988, they reported 297 suspensions, 360 debarments, 439 indictments, 380 convictions, and monetary recoveries of about $238 million.

The investigative efforts of DCIS and the three military criminal investigative organizations have resulted in 9 convictions of top 100 DoD contractors since January 1, 1988. Those convictions have resulted in the recovery of over $200 million in criminal fines and penalties, civil and administrative restitution, and costs of investigation.

Keeping Congress Informed

At various points in my statement thus far, I have alluded to my semiannual reports to the Congress and to copies of certain types of reports which the principal DoD oversight committees or congressional requestors receive. I have provided additional copies of the last semiannual report for your information.

My office participates actively in the processes for formulating DoD, Executive Branch, and President's Council on Integrity and Efficiency positions on proposed legislation. Likewise, Mr. Vander Schaaf and I testify frequently before a wide range of Congressional Committees on both proposed legislation and DoD program issues. During FY 1988, for example, he or I appeared as the primary witness at numerous hearings on such topics as Government-furnished equipment in the hands of contractors, procurement fraud, consultants, oversight of procurement programs, compliance with the Truth in Negotiations Act, DoD acquisition issues, and the DoD ethics program. Moreover, we respond annually to several hundred letters and calls from Congressional Members and staff requesting information, briefings, or assistance in inquiring into allegations of fraud, waste or mismanagement.

Preventing Fraud, Waste and Abuse

Congress, in its wisdom, directed the IG's, in Section 2 of the IG Act, to prevent and detect fraud and abuse in programs and operations. My office's efforts to prevent criminal acts, is given as high a priority as detecting and correcting the problems that do occur. The vast majority of DoD and defense contractor employees are honest, patriotic, and competent people who want to avoid wasting the taxpayer dollar and who shun impropriety. We in the Department need to assure that all employees, from the most senior officials to the entry ranks, are informed of exactly what the Standards of Conduct, ethics laws, and other regulations entail; of how to avoid impropriety; of what constitutes adequate internal management controls; of how to recognize fraud or abuse and what to do when problems are identified.

- In addition to the training efforts I mentioned previously, my office is in the forefront of a concerted effort to strengthen ethics awareness throughout the Department. As an example, I have made available to the Subcommittee several copies of a pamphlet we recently produced entitled Defense Ethics: A Standards of Conduct Guide for DoD Employees. We began distributing it in January, and over 17,000 copies have been requested by DoD components already. Initiatives such as this do not attract publicity or controversy, as do many of our audits, inspections, and investigations; however, I believe that they are of considerable benefit.

Resources

You asked for information on OIG resources. The January 1989 President's Budget includes 1,531 civilian personnel and $95.8 million for my office in FY 1990 and the same number of civilian personnel and $97.6 million in FY 1991.

That is the same civilian end-strength as is authorized for FY 1989; however, we are only funded for 1,436 workyears in FY 1989. The January 1989 President's Budget includes funding for 1,501 workyears in FY 1990 and FY 1991. That minor increase would merely enable us to fill certain existing vacancies, spread among the audit, inspection, investigation, special inquiries, and support areas. We are authorized 36 military spaces in FY 1989, and would continue that level in FY 1990 and FY 1991.

Summary

Mr. Chairman, I hope that this statement has been responsive to the Subcommittee's interests and needs. We would be happy to answer any questions.

Mr. HUTTO. All right. Thank you, Ms. Brown.

Several years ago, when I first came on this committee, I did not get that involved with this. I remember our late Chairman Dan Daniel had been working on a problem with the Navy. There were a lot of real problems. They could not find items. They were just literally a mess, and as I recall at that time, the accounting system of the Navy was in terrible shape. I guess my question for you is, how far have we come in cleaning that up, and are all of our services computerized? Do you have a common system of accounting? What is the situation now?

Mr. VANDER SCHAAF. I believe Mr. Daniel was primarily interested in material, and accounting problems associated with tracking stock inventory in our warehouses.

I believe there has been a good deal of progress made in this area. There is not, however, a single or unified system which I could point to. Certainly the inventory control systems of the Defense Logistics Agency are not necessarily completely inter-operative with the systems of the Naval Supply Command, for example, or even the Air Force Logistics Command.

I do believe, however, that we have enhanced our control, and that the number of adjustments we have to make in accounting for inventory has been reduced. The pluses and the minuses are not as prevalent as they were before.

As far as the accounting systems in general go, we have been reducing the number of accounting systems in the department, Mr. Chairman. I think we started 3 or 4 years ago with roughly 150. We are now somewhat below a hundred accounting systems. A good number of these still do not have a Comptroller General certification. We are moving in the direction of obtaining certification. As we reduce the numbers, the GAO comes in and looks at those accounting systems and certifies them as meeting accounting standards.

Mr. HUTTO. We are glad to hear that there are improvements being made and you are moving in the right direction.

Ms. Brown, the Inspector General Act provides you with the authority to issue subpoenas for the production of records, papers, and other documentary evidence.

You point out in your statement that this has proved to be an effective tool, but that broadening of that authority to provide testimonial subpoena power would further enhance its effectiveness.

Could you more fully explain why you feel this should be done and perhaps provide us with some examples?

Ms. BROWN. Yes, Mr. Chairman. When we want to know why a certain document was produced or the identity of the person who signed the document, if someone declines to be interviewed, we cannot force that information to be provided.

The only way we can obtain it now is by going into the Grand Jury process and using Grand Jury subpoenas. One of the disadvantages to Grand Jury subpoenas, besides the obvious timeliness problem, is that once the information is obtained through the criminal process, it may never be used for administrative purposes.

Where we would like to develop information or take action administratively in appropriate cases, we are unable to do so because some cases never go to trial or that Grand Jury information never come out in any public forum. So, we are working under a real handicap in not being able to get testimonial information.

Mr. HUTTO. Is there any specific example that you can recall where this would have been very helpful to you?

Ms. BROWN. I have a couple of cases that I could provide for the record.

Mr. HUTTO. Well, if you can just provide that for the record.

Ms. BROWN. Yes, I will provide that for the record.

[The following information was received for the record:]

Chairman HUTTO. Is there any specific example that you can recall where this would have been very helpful to you?

Ms. BROWN. There is an ongoing investigation of an aerospace fastener manufacturer, where pertinent information has been obtained through the Grand Jury process. Notification of the effected command has been delayed because of this. The investigators and prosecutors have been examining various methods to release this information to include incorporating the information in a plea agreement which will become public when filed. In the investigation of fraud and corruption at the Defense Personnel Support Center, Philadelphia, PA, many investigative techniques were utilized including the use of Grand Jury subpoenas to demand testimony. Because the release of information was restricted, investigators and prosecutors had a difficult time responding to questions from the Defense Logistics Agency, the Defense Personnel Support Center's command agency, regarding suspension and debarment as well as releasing information concerning military readiness and troop support.

Mr. HUTTO. Mrs. Boxer has introduced legislation that would create a separate inspector general outside the Department of Defense.

What are your views on this legislation, and what do you see as the potential problems or benefits?

Ms. BROWN. Well, sir, I have been an inspector general now in three agencies over a 10-year period. One of the benefits of an Inspector General to all agencies is the coordination within a department, being able to work with all elements of the department and making sure the resources are directed toward the appropriate matters.

In Defense with the many different organizations which I referred to earlier in my statement, it is absolutely critical that you have that internal coordination: to avoid duplication, to work with the agencies in order to get remedial action at appropriate times, to work with them to provide preventive programs such as a contractor risk assessment guide, which we have recently produced. That coordination would be lost, I believe, if the organization were totally outside the department, and in fact, it would duplicate both what the FBI and the GAO are doing. You already have two outside organizations for that.

In addition, there are several other factors in the bill. For instance, someone could not work for the OIG if they had obtained any income from the Department of Defense for 3 years prior to their employment or 3 years afterwards. That is not limited to people in key positions or anything of that nature. That refers to all employees. A mail clerk who may have washed Defense Department cars 2 years earlier would not be able to come to work for the office, nor would they be able to take any other jobs for 3 years afterwards.

There are some serious shortcomings, I believe, in the way that bill has been presented.

Mr. **Hutto**. Did you want to comment, Mr. Vander Schaaf?

Mr. **Vander Schaaf**. I think Mrs. Boxer is attempting to ensure that Inspector Generals are really and truly independent of the Secretary of the Department in which they serve. Whether it is Defense, Interior, Agriculture, or anywhere else.

In my 7 years of looking at this Act, however, I would do something a lot simpler to ensure independence and save all those good things to which Ms. Brown just referred. Particularly in regard to defense. I think the Inspector General has to be part of the Department of Defense. There are other agencies like the FBI and GAO which examine DOD from the outside.

What I would consider doing, is to give an Inspector General a definite term of office. It would not necessarily overlap the Secretary of the Department in which the Inspector General works.

To me that makes more sense than giving independence to the Inspector General. A fixed 6-year term for Inspector General which did not overlap with the Secretary concerned would give a degree of independence.

I do not know if Ms. Brown necessarily agrees.

Ms. **Brown**. I agree with that. At one time, all the Inspectors General removed when President Reagan first came into office. That has not happened in this administration, but certainly independence can be assured by a fixed term.

Mr. **Vander Schaaf**. A fixed term is very simple and avoids all the other problems of having the Inspector General of Defense supposedly report to the President. You know what that would constitute. You would not be reporting to the President. The President has a lot on his platter. Instead, you would be reporting to some second echelon White House official. I just think that would be unworkable.

You have to be part of the Department of Defense to really understand what is going on there and to have some impact and make some changes. But, by the same token, you cannot be part of the management process of the Department and we are not. We try to stay separate from that. I think the system works extremely well today, and I would not recommend making the modifications that Mrs. Boxer is proposing.

Mr. **Hutto**. Sounds like a good suggestion. Who would you have appoint the IG?

Mr. **Vander Schaaf**. The same process. The President, with the advice and consent of the Senate.

Mr. **Hutto**. It would overlap.

Mr. **Vander Schaaf**. Yes, it would overlap, and over a period of years, those terms would be completely different. The IG would come into office knowing full well when that term of office ended. I think it would be very clear and there would not be any doubts about the arrangement under those kinds of circumstances.

So, that is what I would recommend. It is simple compared to all the changes the Boxer legislation proposes.

Mr. **Hutto**. All right. Thank you.

Mr. Kasich.

Mr. **Kasich**. Thank you, Mr. Chairman.

I obviously believe strongly in your program. I authored the bill last year to extend the IG Program and have been adding money into this Readiness Subcommittee's budget for purposes of improved and expanded auditing.

I have always believed in that. I think it makes a lot of sense, except I am just bothered by one basic thing, Derek.

If you do this great work and discover all these problems and then you bring it to us and we write legislation and the Pentagon ignores it, what do we get accomplished around here?

Mr. **Vander Schaaf**. They do not always ignore it, Mr. Kasich.

Mr. **Kasich**. Well, I can think of four or five cases, Derek. You have a problem with revolving door legislation being ignored basically by the Pentagon. There are provisions in it that simply are not being followed.

We heard testimony last week. We passed a bill on off-the-shelf buying. We heard from a man who is managing 7,000 simple items of clothing and things like that. We passed a bill that said you should buy off the shelf. He has 7,000 items.

You know how many items he bought off the shelf? Seven.

Mr. **Vander Schaaf**. Probably T-shirts or something.

Mr. **Kasich**. Seven. They doubled the amount that they were buying off the shelf. So, there were improvements since we passed the law. It went from four to seven out of 7,000.

Then, we have a bill that we passed that is designed to baseline and place a cap weapon systems costs. So, you know what the Pentagon does? They breach the baseline and they violate that law.

Then, we passed the MRP law where the Congress clearly said we wanted them to certify, and now we have a letter out saying that the Pentagon just decided that they are not going to abide by the law. They are going to do things their own way and ignore what we did up here.

How can we be more effective in getting the Pentagon to do what it is that the Congress puts in the law?

Mr. **Vander Schaaf**. No, I do not think you are entirely ineffective, and I think you have got their attention.

Let me talk about MRP. I probably should comment on some of the other items you mentioned because I am not entirely in agreement with you. But I am in complete agreement with you on MRP issues.

You passed the MRP law after a series of hearings by this committee and other congressional committees combined with interest by staffers on this subject.

Your language said "appropriate certification." I think those are the two key words that go together. To my mind—and I am not going to pretend to be a lawyer—the word "appropriate" was used to allow DOD latitude in defining certification so DOD could get reasonable agreements. Thus, Congress would not look like micromanagers on defining the certification.

To me, "appropriate certification" is eminently clear. I have no doubt about what you meant. Yet, someone in the Department of Defense, based on legal advice, I am told, interpreted "appropriate certification" to mean no certification. Well, frankly, I think that is crazy.

The Department's position has been, if forced to used certification, many companies cannot certify because we know full well that their MRP systems are not working appropriately. They have not demonstrated that they produced accurate results. If they cannot certify, what are you going to do about it?

Well, I do not have any trouble figuring that out. One, on future contracts, we are going to withhold a percent of their progress payments that relate to material. That is simple enough, it seems to me.

We are going to allocate our auditors to those contractors that cannot certify, so we know how best to use our auditing force. Obviously, you do not put your auditors on the companies that you think are doing a good job; you put your auditors on the companies that are not.

So, to me, certification has a lot of things to recommend it. The Congress also felt it did. But, the Department states that you used the word "appropriate" and in their view, appropriate certification is no certification. Therefore, they are not going to ask for certification. That is where the matter stands at the moment.

Mr. **Kasich**. The Pentagon says they do not want you to micromanage, and they criticize Congress for not wanting to micromanage. So, we write legislation that allows them to write things as effectively as they can so that we do not try to tell them how to do their jobs.

What they then do is they come back and ignore the law. Let me give you an example, Derek, of what is frustrating for those who want to bring change to the building.

Back in the midst of the ill-wind scandal, Secretary Carlucci came to Capitol Hill and said that two reforms that he was most proud of was buying off the shelf and baselining weapons systems.

They are baselining, and they are not buying off the shelf. So, that is his response to what a great job the Pentagon is doing. Now we go through the MRP, and I see another almost $800 million as being withheld. It gets a little discouraging to be here and have them—somebody told me in the back of the room a little bit ago that is the plan. The plan is just to ignore these laws and just hope you go away some day.

What role can you serve to point out where they are just simply ignoring the law?

Mr. **Vander Schaaf**. We do serve that role. That is why Ms. Brown and I are here testifying today. We do that through our follow-up and our resolution process. We do that through our semiannual report. These things have a way of working themselves out.

I think the Congress dealt with a policy matter when it discussed the issue of certification. I tend to agree with you that when the Congress specifies the exact words of the certification, they may be getting into an administrative matter, and probably should not be there.

But, clearly, in regards to policy matters, Congress writes the policy for how the Government runs. I think you have a perfect right to do that. I guess you will have to make yourself clearer the next time around. That is, if the Congress will follow your lead, Mr. Kasich.

The bottom line in regard to MRP ought to rest with a certification for major contractors that these material management systems are, in fact, producing good results. So, let us have at it again. That is the only answer I know.

Mr. **Kasich**. Thank you, Mr. Chairman.

I just want to compliment both of you for serving a very, very valuable purpose. I have great respect for Mrs. Boxer's efforts to try to bring greater independence and greater scrutiny of the practices of the Pentagon. I do not agree with her on everything, but I really respect her energy and her efforts. In this case, we may get a 6-year term, which would maybe improve what you have and then her legislation would serve a vital function.

But I really do believe in the independence of the IG in the Department of Defense and in all these agencies. I think you do just an absolutely fantastic job, and it is money very well spent. I stand as a big supporter of yours, and I thank you for your blood, sweat, and tears.

Mr. **Hutto**. Thank you, Mr. Kasich.

The Chair recognizes Mr. Martin.

Mr. **Martin**. Thank you, Mr. Chairman.

Ms. Brown, the Hotline figures you referred to are very impressive. That is a very important program. You said, I believe, something on the order of 25 percent of the calls you received in follow-up, there actually was something missed.

Ms. **Brown**. I do not think I used the 25 percent in that context, Mr. Martin. We get about a thousand contracts a month. About a third of those prove to be meaningful enough or substantive enough that we open some kind of an audit, investigation, or inquiry into it.

There is probably about 10 percent, and I am guessing, but I think it is about 10 percent of the total that prove to be something of substance where we actually get a recovery or have to create change as a result.

The 25 percent you referred to, I spoke of our special inquiries staff. They are the group that does non-criminal investigative-type work, including revolving door, conflict of interest, things of that nature. About 25 percent of the cases that they work on come from congressional inquiries or congressional requests.

Mr. **Martin**. I want to speak just for a second to the benefit of your experience on the other 90 percent of the calls. The reason I am sensitive to it is that we have in New York State, and have had for a long time in New York State, an 800 number for child abuse. It has saved a lot of kids a lot of harm and a lot of hurt and even death.

But I can remember, after getting a little experience practicing law, when my client was sitting in front of me pointing out that the marriage was going to dissolve and there was a great deal of hard feelings. The question, going down through the check list, is where are the children now. Then the family court will not let anybody have temporary custody; and if my client had custody, the next thing on my check-off list was to say, in all probability, the Department of Social Services will be doing an investigation of you in an allegation of child abuse.

Why was that? I would say it had been my experience that a spouse will call the 800 number and say that the child was being abused. It will cause you a lot of concern because you cooperate in every way you can. It seems like this was part of the process.

So, from that experience, my question on the Hotline is, for those nine out of ten, do you have those instances where you have the employee who is like the boss, where corporal meets gunny, where the lieutenant hates the lieutenant commander or whatever, and he calls and decides to bring the wrath of God and the Pentagon down on that person? We both have to be responsible and not allow somebody's career to be blemished just because of a personal problem in the work space. Have you had any of that experience? What happens to those nine out of ten? Do they get a little black mark?

Ms. BROWN. Well, your insights, I think, are quite appropriate because we, too, get many frivolous calls and some calls that are just vicious, where somebody has decided to get somebody else in trouble or harass them.

We are very sensitive to that. The people who work those Hotlines are quite experienced. There are sixteen people that work hotline issues and receive calls on a regular basis, and they are very sensitive to the fact that this tool can also be misused.

We do an initial inquiry and try to find out whether there is any supporting information. In this way, about two-thirds of the calls are eliminated, either because they have no substance, the people did not really understand the system that they were talking about, maybe with good intentions, but just did not have complete enough information that they understood what the real problem was.

We, keep the identity of the caller anonymous, if they so choose. We keep the subjects anonymous as far as we can unless we actually prove there is some kind of substance to the allegation, and then there is a case that is produced.

Mr. MARTIN. The thing is, though, you are sensitive to the process of making those inquiries, finding out if there is any legitimacy to it at all. That does not necessarily mean the person will bring in the complainee's superior and make them aware. We had a situation that went on here in the other body where people have a way of making statements and the ability to put a black mark on somebody's career.

Ms. BROWN. Well, I even had one case where the caller was discharged because the individual tried to document some of the allegations and put false documents in files to prove the allegations. Our people are objective enough that they actually identified that.

Mr. VANDER SCHAAF. If I could just add one other clarification on the statistics. You are right. One out of ten, but what we track are contacts. Every call becomes a contact, and many times, if you get a significant case, they will call four or five, ten, even as much as twenty times. We record all of those because we do not know any other way to put the statistics together. You are right, out of 11,547 calls last year, we opened only 1,382 investigations.

So, the vast majority of those calls or contacts do not result in us taking any action, at least initially. Some are people wanting information. Those refer to other organizations. Others raise issues ranging from failure to discrimination based on age, race, and sex. Cases like that get referred to other Hotlines. There are a number of different kinds of Hotlines in the Government.

So, as Mrs. Brown said, we are very sensitive to this business of anonymous allegations. We have found in years of experience that the best kind of allegation is a letter from somebody who has signed his name at the bottom. There are a high percentage of hits on those.

The next sort is a telephone call with a name given. The caller may want to stay anonymous, but is willing to put his/her name forth. The other ones, often superfluous, do not tell you who they are or where they work or what they do. But they know somebody did so and so. Watch out, those are probably a problem, and we are very sensitive to this type of call.

Mr. **Martin**. Well, I appreciate knowing you are sensitive to that, and as members of Congress, every one of us receives hundreds of letters a year that, on the face of them, sound like something, until we find out there is an axe to grind.

Thank you very much. I am in favor of the Hotline. It gives you contacts with people who find the real credible cases, who want to do something.

Mr. **Vander Schaaf**. Some extremely good criminal investigations have resulted from the Hotline. It has also resulted in savings. I think we have realized $90 million in savings, and I mean real direct savings that we can document.

For instance, should we terminate a contract, we will only take credit for this year's buy on that contract as a result of a Hotline call. We do not take it for future years where we would have continued to pay out over price on something. So, all in all, it has been a tremendous tool for our use. We realize it can be abused and try to filter out baseless allegations.

Mr. **Martin**. Thank you.

Mr. **Hutto**. Thank you, Mr. Martin.

Mr. Lancaster.

Mr. **Lancaster**. Thank you for your testimony.

Even though the Department of Defense budget almost doubled in the 1980s, the size of this audit organization did not increase, and, in fact, last year, you and the service audits were all ordered to take a 10 percent cut.

This would have meant even fewer auditors at a time when the Defense establishment had half the money to spend than it did last year.

First of all, who mandated these reductions and what was your role in finding them? Why did not the Department allocate more resources for the audit functions during this tremendous build-up? What do these reductions tell us about the commitment of top management at DOD for effective auditing and especially at a time when we do have a major scandal still to be tried, in fact, indictments still to be handed down?

Ms. **Brown**. Well, we did build up somewhat in the 1980s. In investigations in 1982 when the office was created, we had a 110 investigators. In 1988, we had 317. For auditors in 1982, we had 2,895. These are DCAA auditors. That has increased approximately double to 5,176.

There have been some significant increases. Now, some of the internal audit capability has decreased, not a significant decrease, but it has gone down.

Now, last year, when the reductions were imposed, I appeal them both for my office and for the other service entities. A good deal was recovered in the process. So that we are fairly even with what we had had before.

Mr. Lancaster. So, you have had some gains but some losses and ended up with pretty much a net wash in terms of absolute numbers involved in the auditing organization?

Mr. Vander Schaaf. Yes. I can give you some gross figures. I know your question focused on just the auditors, but you included the whole community, including the military departments, the 22,000 the Chairman mentioned.

When I started in this business in 1981, we had about 19,500 or so in the whole community. We have 22,000 now. So, we have increased.

Your question is focused on the target in the sense of the internal auditors within the Army, Navy and the Air Force audit organizations. They have seen no growth. In fact, they have seen some decline. I believe they have been essentially flat, but there have been moves from time to time to reduce them.

Now, there have also been moves from time to time to reduce the number of Defense Contract Audit Agency auditors. We have on several occasions testified before the Congress on this matter, to either reduce their number or to reduce their authority. Each time proposed legislation which would have done that did not get passed or corrective actions were taken.

So, I think all in all, with the exception of the 1980s, the Department has not supported continued increases in looking for problems in the way we buy things or supporting the audit or the investigative community. I think Secretary Weinberger deserves a great deal of credit for supporting our activities during the 1980s.

Ms. Brown. I could submit this chart for the record, if you would like, but I think it is obvious even from here what the increase both in dollars and personnel has been in the 1980s.

[The following information was received for the record:]

DOD AUDIT, INSPECTION, AND INVESTIGATIVE PERSONNEL

Activity	Personnel on board at end of fiscal year [1]						
	Fiscal year 1982	Fiscal year 1983	Fiscal year 1984	Fiscal year 1985	Fiscal year 1986	Fiscal year 1987	Fiscal year 1988
Audit:							
Central audit	2,906	2,965	3,062	3,066	2,995	3,047	2,964
Internal review	1,907	1,949	2,201	2,394	2,317	2,324	2,788
Contract audit	3,603	3,814	4,231	4,705	5,063	6,139	5,822
Military exchange	101	116	117	105	108	100	102
Total	8,517	8,844	9,611	10,270	10,483	11,610	11,676
Inspection	3,425	3,704	3,721	3,572	3,786	3,917	3,849
Investigation	5,543	5,728	5,968	6,319	5,618	6,551	6,709
Total personnel on board	17,485	18,276	19,300	20,161	19,887	22,078	22,234

[1] Includes civilian and military professional, administrative, and support personnel.

Mr. Lancaster. Your latest semi-annual report identifies more than 22,000 personnel as involved with various audit investigative activities. It also shows there were $500 million spent for these functions.

Do all of these employees have training that ensure that they can recognize fraud when they see it? Do you think that there would be a more effective way of controlling all DOD audit functions if you had control over them, as opposed to your simply providing them guidance? Do you audit audit agencies and, lastly, do you control in any sense the quality of people in the other DOD audit and investigative agencies, set training requirements, standardized performance goals, etc.?

Can you direct a service to adequately staff their audit agencies? In essence, what should be your control of these agencies?

Ms. BROWN. All of the 22,000, now that is made up of investigators, auditors and inspectors, all of those people do receive training. There are complex training programs.

Mr. LANCASTER. Under your direction?

Ms. BROWN. No. Within each of their organizations, there are training programs; they are all receiving training. We train, for instance, auditors in fraud awareness and any of these organizations may send auditors to the training so that they are capable of testifying and working with investigators to provide audit support in investigations. It is a rather specialized type of field.

We also provide training for people that are in the operational areas outside of audit and investigations all together. We have had many, many thousands of people that have had fraud awareness training.

I believe your question was focused on the level of authority I have over these other offices. We certainly do our oversight reviews. Some eighty some reviews that I mentioned. For the most part, there is pretty good compliance to our suggestions as strengthening or increasing the capabilities within either of those audit or investigative offices.

We do not do that with inspections, which is the traditional IG function in DOD. We limit ourselves to coordination in that area. There is no doubt you always have greater capability and authority if the people are working directly for you. I believe that those capabilities of my office would be increased if more of these organizations worked for us. But the services need their own capability as well, and this coordination that has been worked out very painstakingly since the IG Act was passed is working at least 90 percent of the time. There are a few times when friction exists or we feel that we would like to have a little more authority.

Mr. LANCASTER. Would you suggest to Congress that they consider giving you greater authority over the service audit and investigative functions?

Ms. BROWN. I believe that should be re-evaluated periodically to see the progress made and whether that authority is warranted.

From a personal standpoint, I certainly feel I could do the job better with more authority, but there are opposing views as well. I think all of them have to be considered.

Mr. LANCASTER. As part of our evaluation of performance of audits in general, we had hearings last year on the naval audit, which really was a pretty dismal show. In fact, it was almost as if the Navy management wanted it that way.

What is your view on having separate audit organizations? This is really stating a little bit more forcefully what we were just talking about. What controls should you have over these service audit agencies, and what should be the DOD IG's role in evaluating the organization and preventing them from becoming as ineffective as the Navy audit system did?

Ms. **Brown**. Well, in that case, I mentioned in my statement that we did our own oversight review of Naval Audit Service and GAO also did one, and we followed up to see whether or not recommended actions were implemented.

Good progress has been made. This is a slow process. It has certain protections in it, but it is slow and tedious. When a major problem exists, if you have direct authority, you can take care of it very quickly.

So, it is a matter of philosophy, whether the Department believes that there is enough value in keeping those elements within the Naval Audit Service and each of the other services, or whether they want to consolidate all audit and investigative activity.

I think that was debated for a long time in Congress before the IG Act occurred in 1982.

Mr. **Lancaster**. Congress has raised from time to time the issue of controlling the number of redundant audits done on defense contractors. You describe in your statement your efforts to coordinate this with other audit agencies.

Many agencies even keep people on site at contractor plants, such as DCAA, the Defense Logistics Agency, etc. While these people do not perform the same functions, they are all DOD employees and often share even the same office space at the defense contractor sites.

Have you ever done or do you plan to do a study to consolidate these offices so that contractors only deal with one agency, or would that be a more effective way of establishing control over the contractors that have three or four different auditors on site during the performance of the contract?

Ms. **Brown**. Well, the only contract auditors on site are part of the Defense Contract Audit Agency. Those are the on-site auditors.

Mr. **Lancaster**. How about the Defense Logistics Agency and service reps? They all——

Mr. **Vander Schaaf**. In the 1965 period, to some extent, consolidated contract administration. We said that each plant would be represented by one of the military departments. From time to time, major defense plants move from Air Force supervision or contract management to Navy contract management, or back and forth. The Army, I believe, only has three facilities out of some seventy facilities in the Department that have on-site contract administrators on site all the time.

You do not want to put the auditors in the same organization as the contract administrator. The historic fight in the Department of Defense has been with the contract auditor. Is he an advisor only to the contracting officer or does he also exercise some independent audit authority? Is he really independent? Can he make calls, etc?

I can go back to a letter that Mr. Packard signed back in the early 1970s. I think you have got it in here if you want it. I think he threw cold water on the whole business of auditing contractors. He really came out strong and said, you, contract auditor, are only an advisor to the contracting officer. The contracting officer can do what he wants with your reports, there is going to be no further review of that. That changed in 1981 with something called the Contract Follow-up Directive, which our office put out in 1981–82 went into effect. Since then, there has been a balancing act. You do not want to put the contract auditor directly in control of the contract management process.

I think it gets back to the argument that was here in the Congress at the time. Should the Under Secretary for Acquisition have all the contract auditors work for him. To me, that is putting the fox in charge of the chicken coop. You have got to have these balances and checks to keep independent audit.

I would not recommend that you do any further consolidation. If you mean by consolidation, putting the contract auditor and the contract administrator and the contracting officer in one single organization, I think that would be a very big mistake.

Mr. **Lancaster**. Mr. Chairman, I have one more question, if I might be permitted to ask it.

Ms. Brown, when you testified last year, you and I had an exchange over the role of whistleblowers versus your auditors in ferreting out fraud and abuse. This came up because of the ill-wind investigation of extensive fraud.

Can you address how much of the fraud and abuse is being discovered now as a result of whistleblowers as opposed to people who are hired to do audits? What is the ratio?

Ms. **Brown**. Well, I do not have that ratio, sir. I can try to see if we can develop that and provide it for the record.

But those are only two elements that are things that cause us to develop investigations. DCAA provides us with input when they are suspicious that some criminal activity could be occurring. They have a very systemic way of doing that that is working quite well.

Our own auditors occasionally run into something, and they also provide us with that information so that we can then follow up through investigation or sometimes special inquiries, if it happens to be non-criminal but investigative in nature.

We get a great deal of input from conscientious employees, concerned supervisors, our own initiative, where we see areas that are very vulnerable. So, there are many, many inputs into that process, other than just either the whistle-blower or the audit findings.

Mr. **Lancaster**. So, there is no way you really can break it down?

Ms. **Brown**. No, I cannot think of anything that would help us.

Mr. **Lancaster**. Thank you, Mr. Chairman.

Mr. **Hutto**. In connection with the ill-wind investigation, the DOD IG role is not very clear.

Did your office have a lead role in this investigation, or did you leave this up to the Naval Investigative Service and the FBI?

Ms. **Brown**. Mr. Chairman, we do not have the lead in this investigation. When it was originally reported through former employee of the Navy, they took their concerns to the Naval Investigative Service, who brought it to my office, in accordance with our memorandum of understanding.

The allegations included bribery which we report routinely to the FBI through another memorandum of understanding. So, the FBI was brought in on the matter as well.

I should back up a little and say we were also investigating parallel matters. All cases were put together into a major investigation, and the major players are the FBI and the Naval Audit Service. We did the Air Force portion which took a far smaller amount of resources. The entire investigation is under the direction of the U.S. Attorney, in this case Mr. Hudson. The FBI can choose to take the lead in any case that they see fit. They took the investigative lead.

Mr. HUTTO. Thank you.

Mr. Ray?

Mr. RAY. Thank you, Mr. Chairman.

Ms. Brown and Mr. Vander Schaaf, it is good to have you here this morning. Your testimony was very good.

In the last 6 years, the ten audit organizations over which you have oversight had $14.2 billion in monetary benefits identified and $7.7 billion documented as achieved. These are really impressive amounts, and I just wondered if you might give us a few examples of some of those things.

Mr. VANDER SCHAAF. Well, we could. There are so many examples.

Mr. RAY. Is there one that stands out that——

Mr. VANDER SCHAAF. Well, one that really stands out to me was when we saw the Air Force and the ARPA developing satellites for the same purpose. It was a classified program. We said wait a minute, you people have got to talk to each other; you both are going to do the same thing, and we are going to end up with more than we need of these particular satellites. The agreed, and we terminated one of the programs.

This is a typical example. In another case the Air Force Audit Agency did some good work on the C-5 Program. The department was able to reduce the costs of the C-5 Program substantially as a result of audit work.

There are just numerous examples, Mr. Ray. I just do not know really where to begin. We could put some in the record for you, some of the bigger ones. The amazing thing about internal audit report is that 90 percent of the audit reports produced no savings, or very few savings, While 10 percent of the audit reports produced 90 percent or about $7 billion in documented savings since 1981.

[The following information was received for the record:]

A few examples of some of the more significant audits completed during the past year by DOD central audit organizations are:

High Frequency Antijam Program (NAVAUDSVC K30086)

A Navy Audit Service audit of the High Frequency Antijam (HFAJ) Program revealed that: research and development efforts had been ongoing since 1975, full-scale engineering development had been delayed for at least 2 years, the system's deployment had been delayed 5 years, the need and affordability of the program were in question, and the HFAJ system was incompatible with other related systems.

The auditors recommended that the Navy reevaluate its need for and the affordability of the HFAJ system. The Navy concurred and after reassessing the affordability considerations and the inability to achieve costs and marginal war fighting utility, the program was canceled. The monetary benefit from these actions was $226.7 million.

Contract Pricing (OAIG-AUD 88-165)

This report summarized the results of the largest audit ever undertaken by the IG, DOD. The audit was requested by the Secretary of Defense and covered the pricing of contracts awarded to 95 contractors who sold DOD unreasonably priced spare parts that were identified in an earlier DOD-wide audit of the procurement of spare parts. The audit objectives were to determine whether 774 contracts, subcontracts, and contract modifications awarded to the 95 contractors were overpriced and the reasons. The audit was conducted with the assistance of the Defense Contract Audit Agency (DCAA).

The audit found overpricing, amounting to $788.9 million on 47.2 percent of the 774 contracts audited. Failure by contractors to submit accurate, complete, and current cost or pricing data to the Government negotiators as required by the Truth in Negotiations Act, was the primary reason for the overpricing. Poor performance by contracting officers also contributed to the overpricing, and auditors found that DCAA did not provide sufficient audit coverage to identify contractor violations of the Truth in Negotiations Act.

Recommendations for recovering money on overpriced contracts were made in separate pricing audit reports issued to the applicable Defense activities. Recommendations on systemic issues are under consideration by the Department.

Military Housing Construction (AAA WE 88-1)

The Army Audit Agency found that an Army installation overstated its requirements for the construction of troop barracks and family housing. The overestimate was caused when the number of available permanent barrack spaces was inappropriately reduced because of unapproved conversion projects. As a result, $40.6 million worth of troop barracks and family housing construction were not needed.

The auditors recommended that: the conversion of barrack spaces to administrative use be disapproved, the planned procurement of additional barracks be canceled, and the installation not proceed with the building of 310 family housing units. The Army agreed to suspend the construction contract for troop barracks and to revalidate the requirements for family housing units.

Ms. **Brown**. But that is not to imply that those are not very important audit reports because there are a great many preventive measures, organizational changes, and things that we cannot quantify.

We are very careful that we have actual dollars that we can point to when we talk about savings. We can back those up with figures. So, those things that are in nebulous areas but preventive in nature or difficult to define are not included in those dollar savings reported.

Mr. **Vander Schaaf**. The word "savings", sir, does not include—does not, in most cases, mean actual recoveries of funds. In most cases, it is funds put to better use. The fact that funds are not going to be spent on a program does not mean that Congress takes the funds away from us. Although in some cases that does happen. Generally speaking, however, the funds are put to better use next year or down the road.

Mr. **Ray**. Very good. Does your office have any jurisdiction or any involvement with the Defense Environmental Restoration Account, the funds that DOD now has to look at the environmental problems on some 8,000 military sites on 500 military bases?

Mr. **Vander Schaaf**. We have done a limited amount. Let me explain what has gone on.

An annual audit of the Super Fund, is required by law. The Army Audit Agency has handled that for us at our behest. We wrote them and ask them to do that particular job because the largest problem in terms of total quantity of our environmental problems, are on Army installations and facilities. That seems to be certainly the biggest area, some of the old ammunition plants and the chemical warfare production areas.

So, the Army Audit Agency has done it each year. In addition, our office did an all-encompassing inspection, and maybe I can add some of the findings to your record. I think we completed that in

1985 and pointed out a lot of environmental problems and a lot of management issues that needed to be fixed in the environmental area.

[The following information was received for the record:]

Our inspection of the Defense Environmental Restoration Program (DERP) is currently ongoing. The objectives of this inspection are:

Review implementation of DERP by the Military Services and the Defense Logistics Agency (DLA) and to determine if policy/guidance issued by the Deputy Assistant Secretary of Defense (Environment) (DASD (E)) is adequate.

Determine if components of the Military Services and DLA have developed sufficient supplemental instructions to insure Environmental Response, Compensation and Liability Act (CERCLA), Superfund Amendments and Reauthorization Act (SARA) and the National Contingency Plan (NCP) and assess environmental cleanup progress at installation/site level.

Determine if the Military Services and DLA have committed sufficient resources, including manpower, to the DERP effort.

Determine the effectiveness and reliability of management information and feedback systems.

Assess the ability of the Military Services and DLA to identify and rank worst sites first for action (non National Priority List (NPL) sites)).

Determine the status of Department of Defense/Environmental Protection Agency/state relations and evaluate Interagency Agreements (IAGs).

Determine if proper administrative records and Records of Decision (ROD) are developed and available for each site.

Determine effectiveness and efficiency of contract management of DERP contracts and use of contractors in the hazardous waste program.

We are still working with the Deputy Assistant Secretary of Defense for Environment on this matter. In fact, we recently commented on a directive that gives him his authorities and responsibilities. We stated that the directive is not strong enough to do the job. You have got to have more control over this problem at your level or we will never understand what the nature of the problem is.

So, we have done specific auditing in terms of the Army Audit Agency. We have looked at the programs from an inspection standpoint. Let me put some material in your record. I think you will find it interesting because it got a lot of attention. We kibitzed the system, if you will, on how it is organized to get a handle on these environmental problems. We certainly have a number of proposed changes out there.

[The following information was received for the record:]

DEPARTMENT OF DEFENSE

OFFICE OF THE INSPECTOR GENERAL INSPECTIONS

FINAL REPORT

INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
REVIEW OF
HAZARDOUS MATERIAL/HAZARDOUS WASTE MANAGEMENT
WITHIN THE
DEPARTMENT OF DEFENSE
OCTOBER 15, 1985 - FEBRUARY 21,1986

17 JUL 1986

FINAL REPORT
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
REVIEW OF
HAZARDOUS MATERIAL/HAZARDOUS WASTE MANAGEMENT
WITHIN THE
DEPARTMENT OF DEFENSE
OCTOBER 15, 1985-FEBRUARY 21, 1986

I. AUTHORITY

As a result of a general inspection of the world-wide property disposal system, conducted by the Office of the Inspector General, Department of Defense (OIG, DoD), December 3, 1984 through May 24, 1985, the Inspector General, Department of Defense, directed the Assistant Inspector General for Inspections (AIG-INS) to take the lead in establishing a team to conduct a complete review of DoD Hazardous Waste Management. The team, composed of two members from each of the Military Departments, two members from the Defense Logistics Agency (DLA), and members from the AIG-INS office, was directed to give specific emphasis to identifying serious problems that should be corrected. Colonel Jackie F. Johnson, USA, Chief, Inspector General Regional Office, Central Area, was designated to direct the review.

II. SCOPE

To define the scope of the DoD management problem, the team reviewed other inspection reports and previous audit reports issued by the Military Departments and the General Accounting Office relating to hazardous waste issues. Some team members also attended DoD Hazardous Waste Policy Steering Committee meetings. The scoping effort immediately disclosed that Hazardous Waste (HW) problems could not be effectively addressed without addressing collateral Hazardous Material (HM) management issues. Hence, the scope of the review was expanded to include world-wide DoD management of hazardous material and hazardous waste, with the following specific exclusions: nuclear, biological, and chemical weapons; high level radioactive waste; and Installation Restoration Programs.

To adequately evaluate the systemic problems, the team requested and received briefings from the Military Departments and the Defense Logistics Agency. In addition, site visits were made to 39 DoD installations/separate commands within the continental United States and to 33 DoD activities in Hawaii, Guam, and seven foreign countries.

Defense Reutilization and Marketing Regions and Offices (DRMR/DRMO) were visited as an integral part of the site visits, with several issues pursued to the Defense Reutilization and Marketing Service (DRMS) Headquarters. Concerted effort was made not to "re-discover" facts already available from previous inspections or audits. Instead, effort was directed toward identifying current DoD HM/HW systemic management and disposal problems.

III. METHODOLOGY

The approach used to identify systemic DoD HM/HW management and disposal problems can best be described as a "survey." The team met with personnel representing nearly every management level within the Department of Defense.

These managers and their staffs were informed that the visits were not the same as an Inspector General inspection; rather, the visits were made for the purposes of fact-finding. DoD HM/HW managers were encouraged to discuss openly their HM management/HW disposal problems and were also asked to discuss any locally developed, innovative HM management techniques. This "survey approach" was designed around the cornerstone that the Military Services and DLA representatives have the specialized knowledge required to identify systemic problems. Incorporating this knowledge, the team could recommend workable, corrective actions.

As authorized by DoD Directive 7650.3 dated March 19, 1985, significant findings with management responses indicating planned corrective actions and/or disputed findings which cannot be resolved between the inspected activity and the Office of the Assistant Inspector General for Inspections (AIG-INS) will be referred to the Office of the Assistant Inspector General for Audit Followup (AIG-AFU) for appropriate action and resolution.

The courtesies extended to the IG, DoD, Review Team by the DoD Components and especially by the Director of Environmental Policy, Office of the Assistant Secretary of Defense (Acquisition and Logistics), are greatly appreciated.

IV. BACKGROUND

In 1976, Congress passed the Resource Conservation and Recovery Act (RCRA), and the Toxic Substances Control Act (TSCA). These acts established laws to deal with the problems associated with toxic and hazardous materials and wastes. Additionally, in 1980, Congress passed the comprehensive Environmental Response Compensation and Liability Act which imposes strict liability on owners and operators of facilities dealing with hazardous wastes. In order to comply with the acts passed by Congress, the Department of Defense published Defense Environmental Quality Program Policy Memorandum (DEQPPM) No. 80-5 dated May 1980, which provided DoD policy guidance on the disposal of hazardous materials. In June 1981, DoD issued DEQPPM 81-3 which provided additional guidance on disposal of hazardous materials. DEQPPM 80-8 published in October 1980 supplemented policy already published in DEQPPM 80-5. DEQPPM 80-5 designated the Defense Logistics Agency (DLA) as the DoD activity responsible for the disposal of all hazardous waste except those that specifically were to remain the other DoD components' responsibility. Another policy memorandum, DEQPPM 80-9, was issued November 1980 that dealt specifically with disposal of polychlorinated biphenyls (PCBs). Provisions of these laws and DoD policies combined to form the overall guidance to the Military Services and DLA for the control, storage, and disposal of HM/HW.

The cost of disposal of HW has increased dramatically since 1982. DLA statistics indicate that HW disposal contract costs have risen from $4 million in FY 82 to an estimated $88.4 million for FY 86. DLA reportedly disposes of only about 20 percent of the total HW generated by the Military Services. DLA plans to spend about $115 million for construction of facilities to store HM/HW. The DoD Program Budget Decision for environmental restoration activities and disposal cost for FY 86 through FY 91 is $3.124 billion. The Secretary of the Army, in an address to the Third World Wide Army Environmental Conference, on

December 9, 1985, indicated that the Army alone spends approximately $250 million per year to protect the environment, to include about $60 million annually for contamination cleanup. Approximately $21.9 million has been spent to operate the Hazardous Material Technical Center for FY 82 through FY 85 with the contract ceiling price raised to $30 million through FY 86.

In addition to the above budgeted costs, numerous secondary costs are associated with DoD Hazardous Material/Hazardous Waste Management. For example, there are military construction projects funded by individual Services for hazardous material storage facilities. Program budgets for the construction of HM/HW facilities for each Service were not readily identifiable. However, the U.S. Navy indicated it had completed 35 projects for hazardous waste holding/storage facilities, FY 82 through FY 85, at an estimated cost of $2.0 million and had scheduled 48 facilities for construction in FY 86 and beyond at an estimated cost of $3.7 million. Even these figures are not all inclusive; individual Navy installations may have additional projects.

The foregoing costs are being projected to satisfy laws and regulations during a time when severe budget cuts have been mandated by the Balanced Budget and Emergency Deficit Control Act of 1985, better known as the Gramm-Rudman-Hollings Act. Increasing costs of managing hazardous material/hazardous waste during times of significantly decreasing budgets will adversely impact DoD's ability to concentrate allocation of resources on military personnel and increased readiness.

V. SUMMARY OF SURVEY RESULTS

The systemic HM/HW management and disposal problems identified during the survey were: Regulatory Compliance; Policy and Management; Minimization; Storage; HW Disposal Contracting; Hazardous Material Information System/Hazardous Material Technical Center; and Training and Education.

The major conclusions are:

- The Department of Defense is not in full compliance with the Resource Conservation and Recovery Act and other environmental laws and regulations.
- The Department of Defense's overall management of hazardous materials/hazardous waste is unsatisfactory.
- Minimization programs of Hazardous Materials/Hazardous Waste are fragmented and ineffective.
- The management of "conforming storage" construction program for HM/HW is unsatisfactory.
- The hazardous waste disposal contracting procedure is inefficient, at times ineffective, and costly.

- The Hazardous Material Information System (HMIS) is antiquated, ineffective, and duplicative of other systems.

- Training and Education of hazardous material handlers, supervisors, and commanders is inadequate.

The issues preventing the Department of Defense from achieving a proactive HM/HW program are: fragmented policies; lack of effective structured management; and lack of communication at all levels. Nearly every installation commander and staff visited indicated that they believed that they were not receiving adequate guidance/support. This concern is especially important since installation commanders can be held personnally liable for violations of environmental regulations. The installation commanders indicated that they must protect themselves because DoD direction has not been provided. In addition, the DoD interest is not protected due to the lack of a unified position with Federal, State, and local environmental protection agencies. The following discussion substantiates these conclusions:

A. Available DoD hazardous material/hazardous waste technical guidance is limited to the broad, DoD policy, and the major command and installation guidelines are fragmented.

1. Fragmented environmental policy guidance emanates from many levels and organizations within the DoD. Within each Military Service, policy guidance may be developed by the headquarters, the major command, or at the installation. In addition, organizations such as Logistics, Engineering, Transportation, and Occupational Health and Safety are formulating procedures implementing Federal Regulatory Programs. With the exception of some interservice regulations, there is no formal mechanism to ensure uniform guidance. Guidance and direction have been given within the Services, but no current comprehensive DoD policy exists. The DoD approach that "the Military Services know best what they need" is causing fragmented management. A specific example noted at the Norfolk area was the disposal of empty paint cans, being accomplished as follows:

a. Two installations were disposing of them as trash and refuse as the cans were emptied.

b. One major industrial facility was contracting independently of the DRMO for disposal in a sanitary landfill.

c. Two installations were storing the cans because the DRMO would not accept them.

This constituted three differing policy directions. Only the first was appropriate and cost effective.

2. One confusing DoD policy is the Defense Environmental Quality Program Policy Memorandum (DEQPPM No. 80-5) dated May 13, 1980. DoD policy as set forth in DEQPPM 80-5 is flawed because it is not consistent with RCRA regulations, and through the establishment of specific exclusions, it precludes obtaining potential cost savings that could be achieved by avoiding duplication of effort. The DEQPPM 80-5 policy was designed to respond to the Resource

Conservation and Recovery Act and Toxic Substances Control Act. However, its definitions and cited procedures are not in conformance with EPA definitions and procedures. Examples of differing definitions are as follows:

a. The DoD policy in DEQPPM 80-5 defines a hazardous waste as used or unused hazardous property, residue, by-products, sludge, and other material that has no known utility and must, therefore be discarded. Change 7 to Defense Utilization and Disposal Manual, DoD 4160.21-M (Chapter XXI-Hazardous Property Management), provides improved standardized definitions for hazardous property, hazardous material, and hazardous waste. The definition for hazardous property in Chapter XXI is equivalent to the definition for hazardous material in Federal Standard 313B (Material Safety Date Sheet Preparation and Submission). Hazardous waste in Chapter XXI is defined as property that is regulated as a hazardous waste under RCRA and State or local hazardous waste regulatory requirements. However, previous DoD policy on the subject, DEQPPM 80-5, has not been updated to provide consistent direction.

b. DEQPPM 80-5, Tab D, paragraph 5, states, that "the activity with 'most nearly' conforming storage" shall store waste (accept/retain custody) pending disposal. However, RCRA requires that storage facilities meet prescribed minimum standards for continued use after November 1980. Installation personnel believe that storage may continue in facilities that do not meet RCRA interim standards pending DLA's construction of "Conforming Storage."

c. The intent of assigning the hazardous waste disposal mission to DLA was to reduce duplication in waste disposal efforts. Excluding eight categories of wastes has caused unnecessary confusion. The Services are currently disposing of approximately 80 percent by volume of the total DoD hazardous waste. DLA could accept the contractual disposal responsibility for sludges and residues generated as a result of industrial waste treatment plant processes and operations (currently individual installations issue disposal contracts without coordinating with the local DRMO relative to existing DLA disposal contracts). The eight exclusions identified in DEQPPM 80-5 are causing unnecessary confusion because the majority of the exclusions do not have any relationship to regulated hazardous waste.

B. Hazardous Materials/Hazardous Waste Management policy is developed by committee.

1. Policy is developed and defined by the Hazardous Materials Steering Committee and the DEQPPM 80-5 working group. This pattern is followed through the Military Services to installation level with review and interpretation by environmental program committees and boards. The committees establish their own policies and procedures in the absence of clear-cut guidance by DoD reflecting requirements of Federal and State regulations. For example, the DEQPPM 80-5 working group issued guidance that was perceived at the installation level to require triple rinsing of any empty container that previously held a hazardous material in order for the container not to be considered hazardous waste. Change 6 to the Defense Utilization and Disposal Manual, dated July 31, 1984, was issued in an attempt to clarify the triple rinse issue (refer to Chapter VI, Property Requiring Special Processing, paragraph 21,f.). Change 6 did not solve

the problem and some installations are still reportedly triple rinsing containers prior to turn-in. It is important to note that under RCRA, a hazardous waste container is considered empty and is not regulated if it contains less than one inch of residue. Rinsing is not required except for acutely toxic waste. This policy decision to triple rinse has increased the workload through not only the physical rinsing of the containers, but also through disposal of rinse solution, and maintenance of cleaning facilities and oil/water separators. This procedure could create three times the volume of the rinse solution for each container rinsed, which magnifies the disposal problem.

2. Another area of confusion is who will be funded to pay for hazardous waste disposal, the installation generators or DLA. On July 5, 1985, policy was distributed which stated in part that generators were to pay for disposal. The policy was modified by memorandum dated September 1985, discussed at several DoD Hazardous Materials Steering Committee meetings; reviewed by the Service Secretaries in consultation with the Joint Logistics Chiefs; and endorsed by the General Accounting Office in their November 7, 1985, draft report, "Hazardous Waste--New Initiatives Needed at Military Bases in the United States". In the DoD response to the GAO Draft Report dated January 10, 1986, the DoD did not endorse, without further review, allocating hazardous waste disposal funds directly to individual Military Services instead of to DLA. However, the Senate Appropriations Committee directed that the Military Services would fund for hazardous waste disposal in FY87. The DoD has budgeted HW disposal costs for the Military Services in the Program Budget Decision (PBD 093C). The result is that the original policy, developed using a committee approach, was not implemented although the unsigned policy was distributed. This has caused confusion.

3. In an attempt to help establish effective DoD Hazardous Material guidance, the Defense Environmental Leadership Project (DELP) was initiated in January 1984. DELP was tasked to develop innovative solutions for long term environmental problems and improve the DoD's national leadership position in environmental protection. Since January 1984, hazardous waste disposal costs have increased drastically, EPA and state issuance of notices of violation to DoD installations have increased, and DoD issuance of policy guidance has slowed. DELP has not been successful, basically because it either doesn't have or hasn't utilized necessary authority.

The Department of Defense will never be able to achieve a proactive position without formalizing the structure, minimizing fragmentation of effort, and by placing management in the hands of a surrogate for the Secretary of Defense. The time for management by committee is long since past.

C. There is a lack of standardized staffing resources, including qualified engineering, scientific, and environmental specialists.

1. Site visits revealed that the environmental program effectiveness is directly related to command awareness/emphasis and the technical expertise of the environmental engineers, industrial hygienists, and/or environmental protection specialists, e.g., Vandenberg and McClellan AFBs had good programs, dedicated staffs, and top command level interest.

2. It is recognized that the effects of the Gramm-Rudman-Hollings Act adversely impact component staffing levels. However, public law (Federal, State, and local), public interest, hazardous waste program emotional impact, personal liability of the installation commander, etc., will not allow DoD hazardous material/hazardous waste staffing requirements to be ignored. Qualified engineering and scientific personnel must be employed full-time to support DoD management of HM/HW at all Military Service and DLA levels. This is not to say that each DRMO, post, camp or station require a chemical engineer. It is to say that properly qualified personnel who are familiar with the regulations governing the program; the types and characteristics of the chemicals and wastes to be disposed; and the potential health, safety, and environmental problems associated with handling and disposal of materials must be available to support program management for a given geographical area. The Department of Defense needs to identify activities that have qualified personnel, e.g., Naval Air Rework Facility, Norfolk; Ship Repair Facility, Subic Bay; etc., and ensure that this expertise is available to other DoD activities in the same geographic region, e.g. DRMOs. The concept of sharing limited DoD resources also should include identification/use of laboratory analysis facilities. This same requirement to obtain technically qualified personnel and ensure appropriate staff assignments must be addressed from the DoD level through all DoD Components.

D. An important pervasive DoD hazardous material/hazardous waste management problem is the lack of communication at all levels. There is an attitude of "us" versus "them" (i.e., Services vs. DLA). Examples of this problem are as follows:

1. DRMOs are paying to dispose of battery acid, while Military Service operated Industrial Waste Treatment Facilities (IWTF) in the same location are purchasing acid for plant operations, a need for which battery acid could be used. This affects waste stream reduction efforts and the sizing of conforming storage facilities.

2. Some installation commanders and the general public are misinformed about the nature of most of the HM/HW in the DRMOs storage facilities. Many people believe that highly toxic substances are stored in DRMOs, when in fact they store mostly paint, lube oil, soap, bleach, etc. The DRMO does not store nerve agents or highly explosive items.

3. DRMO personnel are often not included in installation environmental advisory committees.

4. A common complaint by installation commanders is that they have neither oversight for nor insight into DRMO hazardous material storage operation, even though the commander is personally liable for the EPA permit under which the DRMO operates. The installation commander usually provides support to the DRMO for annual health and safety inspections and inspections by fire fighting personnel. The DRMO also needs to be included in the installation spill response plan. Reports from these types of onsite inspections and results from spill response exercises should provide the commander insight into the acceptability of DRMO operations. If a serious problem is observed, the problem

should be referred to the responsible Defense Reutilization and Marketing Region (DRMR) that has oversight responsibility for the DRMO. The problem is that services provided by the installation are supposed to be clearly identified in Inter-Service Support Agreements (ISSAs), but the ISSAs are not being properly administered. Services that produce a monthly billing, e.g., water, lights, and telephone, are prepared by the service, certified for payment by the DRMO, and paid by the DRMR. Since services, like the health and safety inspection are not separately priced, there is no check and balance to ensure the service is provided.

5. A common complaint from DRMS personnel was the lack of accurate HM/HW generations data for conforming storage sizing and more accurate disposal contracting. Accurate hazardous material/hazardous waste generations data are becoming more readily available from generating activities, but the generators are neither routinely providing these data to the DRMO, nor are the DRMOs aggressively seeking the data. This has caused DRMS to "worst case classify HW," thereby increasing disposal cost and directly affecting the sizing requirements for proposed conforming storage facilities.

E. DoD managers are being hamstrung in their attempt to use innovative, "common sense" approaches for disposal of HM/HW. For example, a large storage tank of Jet Fuel (JP-4) started to leak. There was no other storage capacity available, so the decision was made to negotiate the immediate sale of the fuel to minimize spill cleanup cost. The negotiated sale decision was a violation of the $1,000 fair market value restriction (Department of Defense Utilization and Disposal Manual, DoD 4160.21-M, Chapter XI, Paragraph F, Subparagraph 2a and 2b) even though the decision made common sense. Another example was the disposal of a large quantity of calcium hypochlorite (a type of bleach used for decontamination and as a disinfectant in swimming pools). Attempts to sell the item proved futile, and it was determined that the cost to pay for disposal would be approximately $140,000. However, a contractor was found that would accept and could properly handle the item if the Government paid $7,000 in transportation costs. (This situation was not resolved during the team's visit to DRMS headquarters.) The question apparently was whether the Government can pay transportation costs in this case. The Department of Defense can ill-afford not to take advantage of these innovative approaches.

F. Overseas disposal problems require DoD-level evaluation/direction to minimize country-by-country disposal problems and cost impact.

1. In Japan, the DRMO is unable to sell almost anything made in the United States, e.g., paint, solvent, etc. Instead, the Department of Defense must pay for disposal of the item. However, there are readily available markets for these same items in Korea or the Phillipines. It is understood that there are certain instances where there is no choice but to pay for disposal. However, these instances need to be minimized.

2. Overseas problems that require DoD-level attention are the disposal of used lithium batteries (lithium sulfur dioxide), ammunition boxes treated with pentachlorophenol (PCP), and polychlorinated biphenyl (PCB) transformers.

a. With the exception of mainland Japan, all of the DRMOs in the Pacific are experiencing problems with disposal of lithium batteries. There is tremendous confusion and conflicting guidance concerning acceptable modes of transportation and ultimate disposal. This confusion may have resulted from misinterpretation of Department of Transportation (DoT) regulations as well as from overly stringent EPA regulations and conflicting Military Service regulations.

b. The Department of Defense purchased 3,933,541 lithium sulfur dioxide batteries between 1980 and 1985 within the Army standard family of these batteries. Projected purchase requirements for these types of batteries amount to approximately 14,907,900 batteries through 1990. Since not all lithium batteries used by DoD Components fall within this standard family, the above numbers do not represent all the lithium batteries used or required. In an audit currently being conducted by the Inspector General, DoD, the procurement, use, and disposal of lithium batteries is being addressed with regard to performance and cost effectiveness. It is obvious, however, that the magnitude of use and disposal of lithium batteries within the Department of Defense is a large and rapidly growing problem.

c. The accumulation of empty PCP-treated ammunition boxes is a world-wide problem. The only currently approved overseas disposal technique for the boxes is to return them to the continental United States (CONUS). This is a very costly process. For example, during FY85, approximately 70,000 boxes were returned to CONUS from the Republic of Korea at an estimated cost of $350,000. The $350,000 does not include ultimate disposal cost. Additional costs will be incurred unless DLA can find some way to reutilize or sell the boxes.

d. Responses to regulatory agencies, whether Federal, State or local, without the proper level of coordinated technical knowledge of the regulations by DoD representatives create unnecessary costly delays in resolving regulatory issues. For example, U.S. installations in foreign countries such as Japan and Korea have been unable to dispose of PCB items because of disposal restrictions within the countries. Return of these items to CONUS for proper disposal has been delayed in spite of DLA correspondence to EPA. To date, disposal of the items remains unresolved and available storage is being adversely impacted in Guam, Phillipines, Korea, and Japan. This is caused in part by the way the problem was approached with EPA and by the lack of a clear DoD mechanism for such problems to be quickly and effectively resolved. DLA requested assistance from ASD(A&L) to resolve the problem. The issue could have been resolved through the proper development of a positive DoD plan of action defining the disposal problem and the most effective means of solving it in a safe and environmentally sound manner. This issue was specifically highlighted by nearly every flag commander visited in the Pacific.

G. The Department of Defense has the responsibility for monitoring hazardous material/hazardous waste management at Government-owned contractor operated facilities. Additionally, this responsibility extends to monitoring commercial contractors who have been furnished Government-owned hazardous material or are authorized to acquire hazardous material pursuant to a DoD contract.

H. Numerous instances were noted where effective recycling efforts, innovative disposal techniques, and mechanized systems were available, but the technology was not disseminated throughout the Department of Defense. This increases the potential for duplication of effort, hence wasted dollars. For example:

1. Each Military Service is undertaking research and development projects without apparent formal notification or coordination with the other Services. As an example, both the Navy and the Air Force have ongoing industrial sludge reduction research.

2. The many mechanized HM/HW management information systems observed during this review are examples of information systems not shared throughout the Department of Defense.

3. HM/HW technology and lessons learned are not readily shared or disseminated throughout the DoD. An example of an innovative HW disposal technique currently being tested by the Navy is the use of a micro-organism that consumes PCB from the soil onsite. The procedure is being tested in Guam. Anticipated savings if the procedure proves successful is approximately $3 million for the facility restoration effort on Guam alone. These types of innovative procedures need to be publicized throughout the Department of Defense to help ensure disposal/management decisions are based on state-of-the-art technology.

I. Other Issues.

1. Minimization. The Department of Defense has addressed certain aspects of waste minimization, on a limited basis, such as Used Solvents Elimination (USE) program. Some DoD activities are independently attempting to establish and implement HW minimization programs, with varying degrees of success. Without specific direction from the Office of the Secretary of Defense (OSD), a cohesive, DoD-wide program cannot be accomplished. A few examples of some of the most significant problems caused by lack of overall policy and guidance are:

a. In many instances acquisition and procurement controls over hazardous materials, that subsequently become RCRA-regulated hazardous waste are not managed to ensure that such materials are kept to a minimum and are clearly identifiable in the DoD supply/disposal system. Acquisition of hazardous materials in excess of DoD needs results in costly disposal.

b. Shelf-Life Management. Large quantities of material disposed of by the Department of Defense consists of unused items whose shelf-life has expired. The Department of Defense manages over 42,000 shelf-life stock numbered items with an inventory value exceeding $1.6 billion. The semiannual report for the 6-month period ending June 1985, on disposal of these items revealed that DoD Components at the wholesale level (inventory control point) had disposed of 1,725 items costing $13.9 million. The retail activities of all DoD Components had disposed of 7,888 items with a value of $46.9 million, for a grand total of $60.8 million. This report excludes ammunition, perishable subsistence, bulk petroleum, and controlled drugs. Considering these exclusions, a large percentage of the total disposed of shelf-life items are thought to be hazardous materials.

c. In many cases, alternate processes and innovative ideas that would result in less amounts of hazardous waste are not being widely desiminated. Further Waste minimization is not being accomplished through treatment. The DRMS disposal system is not maximizing use of its screening and sales cycles and, most DoD installations do not have HM/HW recovery or reutilization programs established. In January 1984, the Department of Defense established a broad policy for a Used Solvents Elimination (USE) program. Technical guidance for the program has been provided within the Military Services, but there has only been fragmented implementation with varying degrees of success. Some installations have conducted or contracted for studies to determine the feasibility of developing a solvent recycling program. Others apparently feel that they do not use enough solvent to make recovery worth considering, yet have no real idea of how much would make it worthwhile. It was observed that Robins AFB had an excellent solvent recovery program. One distillery was fully operating for four different types of solvents and another was being installed for Type I freon. Total cost savings for FY 85 was $400,000. Another Air Force base had operated a solvent recovery distillery in the past; however, the operator died and the recovery program was discontinued.

2. Storage. During the worldwide IG DoD inspection of DRMS (December 3, 1984, to May 24, 1985), it was found that adequate facilities for the storage of hazardous material/hazardous waste (HM/HW) did not exist at most DRMS field activities. Other audits and reviews conducted by Government and contractor activities have indicated an urgent need for storage facilities as a key element in solving the overall HM/HW problem within the Department of Defense.

a. Hazardous materials warehousing for supply functions is not considered to be a major problem. DLA provides warehousing capacity for wholesale functions and the Military Services provide facilities in support of their wholesale and retail functions. However, with rare exception, Military Service installations and DRMOs in CONUS and overseas do not have adequate storage facilities for excess HM/HW. Often these materials are stored outside with little or no protection from the elements, no segregation, and often on pallets placed directly on bare soil with no secondary containment (berms, curbs, etc). Where covered storage is available, it ranges from old truck bodies, and CONEX containers (Container Express) to "pole barns," modified general purpose warehouses, and a few new buildings built specifically to house HM/HW. New facilities observed by the team were site-specific designs, and the degree of system safety and environmental controls incorporated into the design varied considerably. DoD currently has a significant lack of adequate storage capacity for excess HM/HW. However, the Department of Defense decision to provide "conforming storage facilities" that accommodate both excess HM/HW in the same facility has resulted in decisions that may not be in the best long-term interest of the Department of Defense. Use of such combined facilities for storing hazardous waste is a very expensive warehousing method for housing products awaiting destruction.

b. Dissatisfaction with the progress being made by the DLA program has resulted in installation commanders modifying existing facilities or building new ones independent of the DLA Conforming Storage Construction program to obtain compliance in a more timely fashion. These facilities are usually austere but adequate, built to minimal RCRA standards, and funded by O&M resources. However, they are often duplicative of the capacity being planned for DRMO. For example, DLA has built 5 of 46 programmed conforming storage facilities at Navy installations. The Navy reported it has built or programmed an additional 81 similar facilities. The other Military Services also have such facilities built or programmed, but it is difficult to identify the total number in DoD because they are often identified by pseudonyms or incorporated in larger projects. Total cost of the DLA program is now an estimated $115 million. Total cost of similiar facilities being constructed by the Military Services is unknown.

c. Host installations generally have had inadequate opportunity for timely input to decisions regarding: whether a DRMO conforming storage facility will be located on the installation; where the facility will be sited; and relative priority within the DLA construction program. Host installation master planners and civil engineering activities often were advised of planned projects only after the DD Form 1391 programming document had been prepared. Resulting siting disputes caused delays on at least 15 projects. Generally, DRMS has not adequately complied with the provisions of DoDD 7150.5, "Responsibility for Programming and Financing Facilities at DoD Installations Utilized by Two or More DoD Components," regarding involvement of host installation master planning in siting and design of these facilities. In some instances, DLA plans were coordinated with major commands but not at installation level.

d. Design Criteria for Conforming Storage Facilities. Current design criteria for conforming storage facilities are suspect in relation to configuration and system safety requirements, and are unnecessarily increasing the cost and delaying construction of those facilities. This approach has resulted in facility overdesign and significant cost impact to the program, with attendant escalation of facility costs. For example, an Army Corps of Engineers construction cost estimate at one installation for construction of a facility complying with minimal RCRA requirements indicated construction costs of approximately $44 per square foot. The estimated cost of facilities site-adapted from the DLA standard design range from $75 to $100 per square foot.

3. Contracting. The Centralized Management of Disposal Contracts at the DRMS Headquarters and at some Regions is adversely affecting timely hazardous waste disposal. Disposal contractor performance frequently is untimely and unreliable. Many DLA disposal contract requirements are causing an increase in the overall cost of hazardous waste disposal. Further, the use of requirements type contract for HW disposal binds DLA to a single contractor in

an area and limits flexibility, which may be increasing disposal costs. For example, because of the guarantee that all waste scheduled for disposal will be disposed of through the single contractor in a requirements type of contract, unsound and expensive management decisions can be legally enforced on the Government. Submarine Base, Bangor, WA, unexpectedly received 78,000 gallons of waste sodium nitrite from a visiting ship. The volume was too large for processing through their industrial waste treatment facility in the short time available, so the chemical was reported to the DRMO for disposition. The volume also exceeded available storage capacity. Because of the deployment schedule for the ship, only 3 days could be allowed for removal. The DRMO indicated that their contractor could not respond that quickly, but proceeded to verify that fact with the contractor. In the meantime, as a backup, Submarine Base Bangor had entered negotiations for disposal of this material with Northwest Environmental Services in Seattle, WA, and had received a verbal cost quote of 6 cents per gallon, or 10 cents per gallon if hauling had to be included. Before they could take advantage of this offer, the DRMO informed the submarine base that the disposal contractor would take the waste. Since sodium nitrite was not specifically listed in the contract, it went as a miscellaneous waste at a cost of $1.62 per gallon. This one instance cost the Government an additional $118,560.

VI. IMPACT

The Department of Defense overall management of hazardous materials/hazardous waste is unsatisfactory. Policy, guidance, and technical implementation are fragmented, conflicting, and almost nonexistent at installation level. Communication among DLA activities and the Military Services is generally poor. The current DoD program is not able to achieve a proactive posture. Further, the lack of an overall management structure, including the lack of technically qualified specialists in key decision-making positions, is wasting money, stifling development of innovative disposal techniques, and may be needlessly subjecting installation commanders to personal liability resulting from Federal, State or local Notices of Violation.

VII. MAJOR RECOMMENDATIONS

A task force be formed at the Assistant Secretary of Defense level. The task force must have authority/responsibility to function across the Military Services and DLA. The members need to be highly qualified environmentalists, engineers, and supply specialists who are conversant with current DoD environmental program weaknesses. The task force must be charged with the responsibility to make decisions; the committee approach currently being employed is neither efficient nor effective. Input may be requested from existing committees, including the recently formed Joint Logistics Commanders ad hoc working group. However, decisions concerning DoD HM/HW management must be promulgated, in a more timely manner, from a level within the Department of Defense that can direct Military Service and DLA compliance. Specific areas that need to be addressed as soon as possible are as follows:

A. Issue requisite HM/HW policy, through installation level, and ensure Service/DLA structured technical guidance is issued.

B. Establish a formal DoD environmental structure to ensure qualified environmental specialist support is available through all DoD levels. The structure should include the requirement for installation environmental advisory councils that interact across Military Service lines within geographical areas. For example, areas with large military concentrations such as Seattle/Tacoma, WA; Norfolk, VA; and each foreign country need this kind of cooperative support. The purpose is to provide a united DoD position on Federal, State, and local environmental issues. The advisory councils should be specifically charged with the responsibility for reviewing all communications to the Federal, State and local environmental protection agencies for the geographic area. In addition, a reporting mechanism is needed from the local level to the Department of Defense for monitoring EPA actions. This would help protect corporate interests of the Department of Defense and ensure it is not receiving treatment different from that afforded the private sector.

C. Take aggressive action to evaluate the overall DoD requirement for conforming storage facilities by geographic area. The evaluation needs to be done by qualified engineering personnel having the authority to determine independently if new construction is required or if existing facilities could be upgraded economically to satisfy EPA HW storage requirements. Further, the evaluation needs to include anticipated waste stream reduction efforts. Finally, the siting/sizing decision resulting from the evaluation should be properly coordinated with and incorporated into the installation master plan.

D. Immediately address the funding procedure for HW disposal operations to be used for FY87 and beyond. Specifically, whether the funds will be fenced or whether the funds will be included in the Services' general operations and maintenance budget accounts. The procedure for expediting transfer of funds to DLA for specific hazardous waste disposal operations must be addressed.

E. Establish a mechanism whereby systemic problems such as the PCB issue overseas, can be expeditiously surfaced at the level necessary to be resolved. The mechanism should be designed to reinforce innovative, common sense approaches for disposal of HM/HW and provide state-of-the-art disposal information to all levels throughout the Department of Defense. The mechanism should be designed to help assure installation commanders that HM/HW management actions are being taken from the DoD level on down to help minimize the commander's risk of personal liability resulting from Notices of Violation.

If aggressive corrective actions are taken on the recommendations contained in this report, millions of dollars will be saved. Necessary data to specifically quantify potential dollar savings are fragmented or nonexistent. Until adequate DoD-level management occurs in the entire HM/HW arena, DoD will be unable to furnish an accurate overall cost assessment.

VIII. DoD POSITION AND IG, DoD, ADDED COMMENTS

A. The Assistant Secretaries of Defense for Acquisition and Logistics (ASD(A&L)) and Force Management and Personnel (ASD(FM&P)) were provided an opportunity to review the Draft Report and provide comments. They generally concurred or partially concurred with the report recommendations, or the intent of the report recommendations, except for the major conclusion that the management of the "conforming storage" construction program is unsatisfactory. The IG, DoD, recognizes that a tremendous amount of work has already been done by all concerned and is confident that the HM/HW related problems cited in this report will be addressed. The DoD position and IG, DoD, added comments related to two major conclusions are discussed below:

1. ASD(A&L) partially concurred with the recommendation to establish a full-time HM/HW environmental protection task force office represented by technically knowledgeable personnel from the Military Service and DLA. ASD(A&L) responded as follows:

> The need to track rulemaking and prepare policy is acknowledged. However, a permanent or full-time task force of Components personnel for this purpose is impracticable. A permanent staff already exists under the Director, Environmental Policy, ASD(A&L). A full-time EPA liaison officer is also already in place to improve timely communications or rulemaking. The need for additional staff to support this mission will be evaluated.

IG, DoD, Added Comment: The ASD(A&L) position relative to forming a Secretary of Defense level Environmental Task Force including personnel from the military services is responsive if improvements to existing procedures and channels of communication provide effective management oversight at the Secretary of Defense level and ensure adequate information exchange down to the installation level in a timely manner.

2. ASD(A&L) non-concurred with the major conclusion that "the management of the 'conforming storage' construction program for HM/HW is unsatisfactory. The response was stated as follows:

> Nonconcur with conclusion. A number of initiatives have been taken by DLA: coordination of requirements with military services; programming of resources for construction; initiating a dialogue with EPA to improve the permit process; development and application of a standard design; etc. Taken together, these actions demonstrate unprecedented command emphasis in control of the program.

ASD(A&L) was requested by the OIG, DoD, to re-evaluate the position on the major conclusion that management of the conforming storage construction program for HM/HW was unsatisfactory.

The consolidated position on the conforming storage construction program was not responsive and is not accepted. It is understood that DLA has taken a number of initiatives, however, site visits by the IG, DoD, as well as the General Accounting Office (GAO) indicate that there are fundamental problems in the conforming storage construction program. Further the ASD(A&L) response to the IG Draft Report indicates DLA will accomplish "comprehensive evaluations of future (FY 89) HM/HW storage requirements...coordinate with the military services...the Director, Environmental Policy will direct DLA to (provide) justification of system safety requirements in terms of more realistic damage scenarios."

The recent White House Council on Environmental Quality decision to abolish a rule that requires Federal agencies to consider the worst environmental consequences of their actions (contending that the regulation is "unproductive and ineffective") should be evaluated relative to the impact on DLA's current design criteria. In addition, the response indicates "comprehensive evaluations will be accomplished for FY 89 and beyond." DLA previously indicated that planned Military Construction Project (MCP) expenditures for confirming storage were as follows:

FY 87	$35 million
FY 88	$37 million
FY 89	$10 million

This would indicate $72 million of a total $82 million will be spent without ASD(A&L) being provided assurance/documentation that: warehouse sizing is based on current requirements with adjustments made for the waste minimization program initiatives; proper coordination has been accomplished with the military services; and the current design criteria for conforming storage facilities has been justified. Comprehensive DLA evaluations should be required for Military Construction Projects beginning in FY 87, with the requirement for all construction projects to be specifically identified/justified by DLA to ASD(A&L). DLA should be required to report construction project status to the Director, Environmental Policy at least semi-annually.

The ASD(A&L) position on the major conclusion that the management of the conforming storage construction program is unsatisfactory did not change. ASD(A&L) provided the following additional information:

The DLA conforming storage program has been fully coordinated with the military services; oversight is provided by the Director, Environmental Policy. The following ASD(A&L) responses are keyed to specific OIG comments:

1. Regarding warehouse sizing: hazardous waste (HW) generation data and hazardous materials (HM) turn-in data used for the initial estimates of requirements are verified during the Systems Safety Analysis which is accomplished before completion of 35% design of the project. This information is used to determine the final size of the facility. Waste minimization program initiatives will certainly have an impact on facility size, but quantitative changes in size requirements for near term needs on the basis of such programs are simply not predictable and therefore not useful at this time.

2. Regarding coordination with the Military Services: this is a continuing and evolutionary process. Coordination of site selection and program milestones has been accomplished at least three separate times since 1985. Quarterly project status reports are provided by DLA to the services and the Director, Environmental Policy. Also, as a matter of standard practice, the construction project DD Form 1391 is submitted to the host installation for

review, site approval, and inclusion in the installations's master plan. Any problems are dealt with on a site-specific basis, involving the host, major command, and Service HQ as necessary. Recently, meetings with Army and Air Force representatives were held as DRMS to identify sites where problems still exist. Actions to resolve the remaining crisis were identified and a course of action, including "tracking" procedure was agreed to. Similar meetings have been and will continue to be held with the Navy. These efforts will continue as long as problems remain to be resolved.

3. Regarding design criteria: basic criteria for conforming storage facilities have been prepared as a joint services effort and are documented.

4. Regarding DLA evaluations for MCP's beginning in FY 87 and identification/justification to ASD(A&L): This has been accomplished via the semiannual report and in the process of coordination with the Military services during the MILCON programming and is now before the Congress. Each project is fully supported by documentation required by the MILCON process. Also, the quarterly project status reports mentioned above are provided to Military services and the Director, Environmental Policy.

IG, DoD, Added Comment:

The OIG, DoD, is aware that both the Air Force and the Navy are currently reviewing the DLA Conforming Storage Standard Design. The OIG, DoD, understands, however, that both of these services have concerns relative to the Standard Design (i.e., fire protection).

Two recent General Accounting Office (GAO) Reports concluded, in part, that problems exist within the Hazardous Waste Conforming Storage Construction Program. The second report specifically questioned the size and type of some planned storage facilities. The two GAO reports referred to are: Hazardous Waste New Initiatives Needed at Military Bases on the United States, GAO/NSIAD-86-60, OSD Case number 6879, dated May 86, and Draft of Proposed Report, Hazardous Waste Management Problems at DoD's Overseas Installations, OSD Case Number 7004.

In addition, the House of Representatives Committee on Appropriations has reduced the FY 87 DLA $21.4 million request for conforming storage facilities by $18.137 million. The Committee, in their report (House Report 99-648) on the Military Construction Appropriations Bill, 1987, requires DoD to provide a cost benefit analysis and any other justification for construction of Conforming Storage Facilities versus a concerted effort to reduce the hazardous waste stream. In addition, the Committee questions the justification for the decision to have DLA contract for disposal of hazardous waste and questions DLA's assigned responsibility to construct conforming storage facilities, when DLA does not have legal authority to contract for architect/engineering or construction contractors.

Based on the conditions observed during this survey, the results of the IG, DoD, inspection of the world-wide property disposal system, the findings of

GAO, and the actions taken by the House of Representatives Committee on Appropriations, the IG, DoD, position that "the management of the conforming storage construction program is unsatisfactory" remains unchanged.

J. W. Hegeman
Captain, USN
Assistant Inspector General
for Inspection

Mr. **Ray**. From time to time, there is some disagreement and disputes between different Federal agencies; for example, in the Defense Environmental Restoration Account and EPA. In fact, in one particular instance, Defense feels that EPA over-charged over a $100,000 for oversight and management of a particular site.

In a dispute like that, is that an area that you can go into? Is that within your jurisdiction?

Mr. **Vander Schaaf**. Certainly, yes. We could go and try to do the fact-finding in that dispute and try to reach some conclusions on it. That one has not come to my attention, Mr. Ray.

Mr. **Ray**. Well, we will bring it to your attention.

Mr. **Vander Schaaf**. OK.

Mr. **Ray**. But, in particular, once the contract with DOD was finalized, the EPA then held up the authorization for finalizing it for something like 3 months, costing thousands upon thousands of dollars because the contractor had to sit around on the job for a period of time.

Mr. **Vander Schaaf**. If you would let us know, give us some more details on it, we would be happy to go look at it.

For example, right now, we have a number of these on-going. One of the biggest ones we have is looking at the safety of the water and allegations regarding water at Wright-Patterson Air Force Base.

So, there are a number of other cases where we are looking at environmental and water problems on military installations. We would be happy to look at that. We have a small engineering staff to help advise our investigators and our administrative investigators on these kind of matters.

Ms. **Brown**. Congressman Ray, if I could just add to that, we do a great many joint reviews between IGs of different agencies, Where there is a common interest, say a medical facilities, people that are mis-charging medical costs, for instance, they are usually doing it both with HHS, VA and Department of Defense. We work very closely on those types of reviews.

Mr. **Ray**. Well, this is a big, big project. It is going to take more than $20 billion over a great number of years to correct, and I expect we will be calling on you in the future.

Mr. **Vander Schaaf**. When there is a lot of money around, Mr. Ray, my sensors go up. There will be people out there looking for ways to get their fingers on it, sometimes illegally. That is obviously the place where we send our auditors and we start looking.

We do this when we are constructing a new base. We immediately try to go undercover, for example, to look at the construction business going on there. Is somebody taking bribes? Are inspectors straight? Is the bidding straight? Is there collusion? So, we plan these things and initiate them to make sure. Because as soon as large amounts of Federal money comes in, people come with sticky fingers.

Mr. **Ray**. Mr. Chairman, bear with me just a second here. This may not be in your area, but let me pose a question to you.

Before the Congress, there will soon be legislation introduced from another committee which will actually take away the sovereign immunity of the Federal Government, particularly the Defense Department, allowing individual cities, counties, and States to file suit.

Is this an area that will come under your jurisdiction in any way at all?

Ms. **Brown**. The only way I can see offhand that it would come under our jurisdiction is every time there is a substantial change in the law, then the funding becomes an issue and there are opportunities for misuse of funds. If something of that nature occurs, why, we would be involved. Other than that, I do not see any position for us.

Mr. **Ray**. Just for the record, as an example, the Clean Air Act eliminates sovereign immunity. At Vandenberg Air Force Base, every time a missile is fired off, everything pollutes the air. Here comes the city, the county, the State, with a big bill, saying you violated the law and you polluted the air, so pay up. Sometimes we think those payments are excessive, and all the Air Force has been able to do is just write the check.

Ms. **Brown**. Yes. Our only role would be in something like that, if our priorities got to the point that we would look at that, it would probably be to point out what it was really costing, some of the practicality of these things, so that Congress would have information to change legislation, if that was their choice.

Mr. **Ray**. Thank you. Thank you for bearing with me.

Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Ray.

Mr. Bilbray, do you have any questions?

Mr. **Bilbray**. No. No questions.

Mr. **Hutto**. Thank you.

Mr. Waters?

Mr. **Waters**. Thank you, Mr. Chairman.

Do I understand from your earlier answers that you provide policy guidance to the military Inspectors General, is that correct?

Ms. **Brown**. We provide policy to the military audit organizations and the military criminal investigative organizations, but not the Inspectors General.

Mr. **Waters**. Do you have any oversight responsibilities with regard—they are the ones who would conduct the various reviews, would that be correct?

Ms. **Brown**. Yes, that is true. We coordinate closely. I meet with them on a regular basis, and we do try to work out any policy documents that would be produced and have done that successfully, but I do not have that authority under the IG Act as I have in the other cases.

Mr. **Waters**. One final question just to follow up on some of Mr. Kasich's concerns. I know that in December of last year, your office issued a draft report to the Secretary of Defense on MRPs that more or less summarized your office's work at three contractors in the last year.

Is that near final resolution? Do you have any idea where you are on that?

Mr. **Vander Schaaf**. Well, the report is certainly final, but I do not know if we are even taking it to resolution, Mr. Waters. What we have done is not issue it as an audit report because we wanted to get it out. Further some of these things became subjective and we only looked at three contractor sites. We also looked at three software firms, about half of the companies that write software for these MRP programs.

I do not think we are trying to seek resolution in the Department with respect to our major recommendation on certification. As Mr. Kasich indicated the Department has taken its position on that. We are just not trying to argue that problem with them. I guess that is something the committee may want to concern itself with, but our position is well known on that subject.

Mr. **Waters**. So, the December report is a final report?

Mr. **Vander Schaaf**. Yes, it is.

Mr. **Waters**. Thank you, Mr. Chairman.

Mr. **Hutto**. All right. Mr. Holton?

Mr. **Holton**. Thank you, Mr. Chairman.

Last summer, we received a number of allegations concerning the Air Force Audit Agency, and Mr. Curry on your staff has been conducting an investigation on that.

Are you ready to publish that report? I think the work had been done for a long time.

Mr. **Vander Schaaf**. Well, it is going to take awhile to get the report published. The work has been done. It has been briefed to the Auditor General of the Air Force. It has been briefed to other people in the Air Force, I believe.

I can give you some generics with respect to it if you want to pursue it, Mr. Holton, but I really am not prepared to hand you a report. We are giving the Air Force Audit Agency a good deal of time to comment on each and every aspect of it in detail.

Maybe we are giving them too long a period of time, but I think they are due to come back to us in June or thereabouts, we will issue a final report on the subject. Of course, it will be a public report. There has been much congressional interest in the subject because the auditors that have made the allegations have, of course, written many members of Congress and Senators.

Mr. **Holton**. So, nothing will be available to us until the summer?

Mr. **Vander Schaaf**. Well, I could——

Ms. **Brown**. We could brief you on some of it. There were five allegations that came in. Three of those proved to have some substance to them and there were some areas of concern, and two of the others did have merit, but had remedial action that had already been taken by the new Auditor General.

So, we could bring you up-to-date on that information. The report itself will not be ready for a little while, though.

Mr. **Holton**. Do you want to do that here?

Mr. **Vander Schaaf**. I could do that here, if you want to. I can do that privately with you.

Mr. **Holton**. Why do you not do it in a briefing?

Mr. **Vander Schaaf**. All right. I will be happy to brief you on it.

Mr. **Holton**. I have a couple of other questions. The GAO issued two reports last year on audit resolution, and continuing problems in this area. I guess I have talked to you about it, Derek. Twenty percent of the audit recommendations are just being ignored by management.

Have you implemented all of the recommendations in those two GAO reports, and, also, what are you doing to keep stressing and emphasizing the importance for management? They have to be taking the action or something will happen.

Ms. **Brown**. I am not familiar with the statistic you have of 20 percent.

Mr. **Holton**. That was in the initial GAO report. In some of the organizations they looked at, I think the Navy was the major culprit. They were ignoring almost 20 percent of the audit recommendations that the people had recommended.

Ms. **Brown**. Oh, I am sorry. I was thinking of the resolution of those followed up by my office. Those in the services, we have not done a review since that time to see whether or not those figures have changed.

Mr. **Vander Schaaf**. We have started a new review which is now in the process. The General Accounting Office is currently doing two reviews. I think we have implemented every recommendation the General Accounting Office made, except one. GAO suggested that the Inspector General of the Army not be the follow-up official for Army Audit Agency reports. The recommendation the auditors made the follow-up official. Frankly, I do not have any problems with them both being follow-up officials, and that is appropriate.

The Inspector General of the Army is on many military installations. He receives audit reports from the Army Audit Agency on a very regular basis, and puts them on his checklist of things to do. Did that installation follow up and complete what it agreed to do with respect to an Army Audit Agency audit report? I think that is an appropriate role for the Inspector General of the Army to play.

So, we disagree with the GAO report on that matter. Other than that, I think we are either in the process, and in regards to the first group, we have implemented all of the recommendations.

I am not so sure about the second group being totally implemented. The only one we intend not to implement or disagree with, if you will, is the one that says the Army Inspector General, you should not follow up with Army Audit Agency reports.

Mr. **Holton**. You mentioned in your statement that the DCIS organization is the "premier" procurement fraud-investigating unit in the Government, in the world, and, yet, you say their is a growing case inventory, and budget constraints are likely to reduce the size of the investigative staff.

Given the concern of Congress with procurement fraud, do you not think this is an example of where you should have more authority over where the resources within the Department are being allocated? We do have a thousand people in the Navy doing internal review, whatever that is. Even the Navy cannot define what that is.

Do you not think we should be allowed to take some of those resources and put them into the big areas, like procurement fraud?

Ms. **Brown**. I am certainly of the opinion that we need to provide more staffing for Defense Criminal Investigative Service. The obvious results there would substantiate the need for that.

We now have a provision in the IG Act and due to the amendments that passed last year, that the IG have a separate budget item, and that would identify our budget in such a way that perhaps we would get more visibility on these things and we would not receive these 10 percent cuts or other across-the-board-type cuts that are so devastating to an organization that has, almost entirely, payroll as its major expense. Our other expenses are very, very low.

So, payroll and the travel for those people who are out doing these jobs is the vast majority of what our budget consists of.

Mr. HOLTON. Do you think we should have line items for all of the organizations within the Department?

Ms. BROWN. This is one area that is a very difficult one. We try to ensure that their budgets are not cut to an unreasonable degree.

It is very difficult for us to even identify where these organizations, both audit and investigative organizations, within the service stand because their budgets are not identified as a separate item until very, very late in the process, when it may be too late to make changes.

So, that has proven to be a problem to us, and I think they either ought to have some visibility or some special provision where that money has to be fenced in some way so that it can be identified.

Mr. HOLTON. Thank you, Mr. Chairman.

Mr. HUTTO. Ms. Brown, does your office or one of the component military organizations conduct readiness review of military units? Since this is one of your responsibilities, is it possible that you can provide us with some comments concerning the readiness of our services?

Ms. BROWN. We do not conduct readiness reviews. The military Inspectors General have that responsibility.

Mr. HUTTO. All right. I have one final question.

The Inspector General Act does not specify that your office should prescribe standards and policies for the inspection operation of the military Inspectors Generals.

Does this cause your office any problems? Is this a weakness in the Act that should be corrected?

Ms. BROWN. Well, I was concerned about that before I took this job as an Inspector General because, in my other Inspector General roles in two other agencies, I did have full responsibility for all audit and investigative activity.

I have found, however, that an extremely good working relationship has been in place for the Inspectors General from the services and my office, and I, in fact, meet with them on a regular basis every couple of months and on issues, we have met frequently several times in a week even to resolve issues, and it has not proven to be a problem. So, I see no necessity for amending the Act.

Mr. HUTTO. We want to thank you, Ms. Brown and Mr. Vander Schaaf, for being with us, and we do have other questions we will present to you and ask that you respond to them as part of the record.

Ms. BROWN. Thank you.

[The questions were submitted to be answered for the record:]

Chairman Hutto: The Inspector General of DoD is the principal advisor to the Secretary of Defense for preventing and detecting fraud, waste and abuse, and mismanagement in the programs and operations of the Department.

Could you summarize for us the manner in which your office carries out this responsibility?

Ms. Brown: My office conducts audits, inspections, investigations, prevention activities, and other efforts to combat fraud, waste, abuse and mismanagement. I also establish policy for the operations of other DoD audit, investigative and followup organizations, and review their implementation of those policies. Details on the various aspects of our operations are provided in my written statement.

Chairman Hutto. The GAO has questioned the need for improving audit quality control within the Service organizations. Do you think that DoD needs a Department-wide policy on quality.

Ms. Brown. The DoD has had a Department-wide policy statement on quality control for DoD audit organizations since November 1985. The policy guidance was developed by my office and was issued about 3 years prior to the requirement by the Comptroller General that all Government audit organizations have a quality control program.

The DoD audit quality program consists of three elements. These are: supervision, internal quality control reviews and external quality assurance reviews. The Office of the Inspector General is responsible for conducting, on a 3-year cycle, external quality reviews of my audit operations and the internal audit organizations in the Military Departments. The internal audit organizations are responsible for conducting internal quality control reviews of their operations, as well as, performing external reviews of the DoD internal review and nonappropriated fund audit organizations.

To date, the Naval Audit Service is the only DoD internal audit organization that my oversight office and the General Accounting Office (GAO) have found major quality control problems. It should be noted, however, that the quality problems found in these oversight reviews covered the period prior to when the Naval Audit Service had fully implemented the quality control program required by DoD policy guidance (OIG review covered reports issued in FY 1985 and GAO report covered reports issued during the first 6 months of FY 1986).

In FY 1987 my audit oversight office conducted a review of the implementation by DoD internal audit organizations of the DoD policy guidance on quality control programs. The oversight review disclosed that additional actions, in varying degrees, were required by each of the DoD internal audit organizations to be in full compliance with the subject policy guidance. In response to the report, the audit organizations outlined the specific actions they planned to take to eliminate the deficiencies noted during the oversight review. We are

tracking the implementation of the promised corrective actions.

Chairman Hutto: As you know this Subcommittee has had a long interest with manufacturing requirements planning systems and included a provision in last years authorization bill that would require contractors to certify that their systems meet criteria established by the Secretary of Defense.

I understand your office completed a study of these systems and issued a report to the Secretary of Defense last December.

Would you describe to the Subcommittee the results of this work and your recommendations? Were DoD acquisition officials receptive?

Ms. Brown: (See attached.)

The proposed rule places a disproportionate burden on the Administrative Contracting Officers (ACO). In my opinion, the scope and complexities of the MRPII systems, which are dependent on software that changes continuously, are beyond the technical expertise of most ACO. Even if the ACO were able to make an effective technical evaluation of an MRPII system, that evaluation would only be valid at a single point-in-time. The MRPII systems are dynamic in nature, and they have frequent changes to their software, systems, and procedures. Systems having frequent changes require constant oversight rather than a point-in-time demonstration, evaluation, and endorsement. In my opinion, the proposed rule does not significantly diminish the Government's vulnerabilities.

The December 9, 1988 IG, DoD, report recommends that contractors be required to certify explicitly that their MRPII/MMAS systems:

(1) Comply with the appropriate cost accounting standards and the contractor's disclosed and approved cost accounting procedures.

(2) Comply with the appropriate sections of the Federal Acquisition Regulation.

(3) Meet the requirements of the 10 key elements identified by the Under Secretary of Defense for Acquisition, as further defined by periodically published attributes and functional requirements, such as those derived from our review.

The Under Secretary of Defense for Acquisition has not yet replied to the report. His staff issued guidance to contracting officers on February 22 which, while a step in the right direction, did not fully address the IG concerns and relieve the burden on the contracting officers.

If we are unable to resolve these matters at the staff level, I have the option of elevating them to the Deputy Secretary of Defense for adjudication.

My audit staff reviewed whether Material Requirements Planning (MRP) systems (now known as Manufacturing Resources Planning (MRPII) and Material Management and Accounting Systems (MMAS)) processed transactions in accordance with the Federal Acquisition Regulation, cost accounting standards, and generally accepted Government accounting practices. We focused on all types of transactions that could leave the Government vulnerable to mischarging due to inequities of omission and commission. We sampled MRPII system transactions and software to assess data integrity. We evaluated the accuracy, accountability, auditability, and completeness of transactions that were considered critical to protect the Government's interest. The tests included bills of materials, inventory controls, gains and losses, material transfers, attrition, purchasing and progress payments. We reviewed the contractor policies and procedures that pertain to the operation of the MRPII systems.

The MRPII systems did not demonstrate any intentional biases or systemic inequities and they could be designed to be equitable. We also concluded, however, that specific transaction types, in conjunction with contractor policies, practices, and procedures, introduced vulnerabilities and potential inequities to the Government. We found specific deficiencies or vulnerabilities in individual system environments. Although industry has heralded the benefits of these systems, we neither received nor observed any empirical evidence that supported industry's contention that MRPII systems have been or will result in economies or efficiencies to the Government.

We realize that MRPII systems will continue to evolve and become increasingly complex and prevalent in the defense industry. We do not believe that the 10 key elements prescribed by the DoD for these systems are specific enough. Additional guidelines, in the form of the kinds of system attributes and functional requirements identified during our review, should be developed so that the effectiveness and equity of the systems can be more readily determined by DoD contracting officials and DCAA.

The FY 1989 Defense Authorization Act requires DoD to issue regulations that set standards for contractors' MRPII (MMAS) systems. The Act states that DoD "shall prescribe appropriate certification and enforcement requirements." Pursuant to the direction of the Act, the Defense Acquisition Regulatory Council recently published a proposed rule governing those systems. The proposed rule reflects the Council's conclusion that "recent controls and in-depth review procedures," when combined with longstanding remedies and existing certifications, adequately protect the Government's interest. Therefore, the Council decided that additional certifications were unnecessary. I disagree.

Chairman Hutto: Has the Secretary of Defense ever invoked his authority to block an Inspector General investigation on grounds of national security, or otherwise sought to constrain your audits and investigations?

Do you feel confident that you have sufficient independence to carry out your responsibilities effectively and in an efficient manner?

Ms. Brown: No Secretary of Defense has ever invoked his legal authority to block an audit or investigation, or otherwise sought to constrain any activities of my office. I am firmly convinced, therefore, that I have ample independence to perform my mission well. I believe the results of my office's work clearly support that contention.

Chairman Hutto. You explain that the "overauditing" complaints heard from some contractors a few years ago was the result of too many overlapping reviews by other than auditors, for example, technical specialists and oversight personnel.

While you say that some progress has been made and more needs to be done, many contractors still believe there are too many auditors in their plants. Would you agree with that statement, and that, hopefully there will be government auditors in a plant if you are doing business with the government?

Ms. Brown. While many officials from contractors and industry associations continue to allege that too many auditors visit contractors' facilities, the facts do not support their contentions. Our most recent review of DoD visitors to contractors' facilities disclosed that less 2 1/2 percent of the visitors were DoD auditors. We do not dispute, however, that there may be duplicate or excessive oversight of Defense contractors, but the primary cause of this problem is not too many auditors.

Since the fall of 1987 we have been participating in a task force with the Offices of the Under Secretary of Defense (Acquisition) (OUSD(A)) and DoD Comptroller to identify areas of potential duplication in contractor oversight and to issue needed policy guidance. In December 1989 the USD(A) issued a report to the Congress on the actions taken to eliminate duplication of audit and oversight of contractor activities. The report indicated that 13 of the 18 areas selected by the joint task force for review have been completed. As of March 31, 1989, the reviews of 5 areas had not been completed. The report also covered other actions taken by DoD to address the duplicate oversight issue.

From our extensive oversight of the Defense Contract Audit Agency (DCAA) we have found no evidence to indicate DCAA has an excessive or underutilized audit staff. To the contrary, DCAA for many years was severely under staffed. For example, DCAA's incurred cost audit backlog has continued to grow to its present level of about $150 billion. Only in recent years has DCAA obtained staffing authorizations that closely approximate their workload requirements.

I agree at those contractor locations where DoD does significant business that we should have a resident DCAA audit staff to ensure that DoD's interests are adequately protected. The size of the audit staff at individual contractor locations is influenced by many factors, such as, level of annual business; types of contracts; adequacy of accounting, internal control, estimating and other systems; legislative and regulatory requirements; prior audit experience; etc.

Chairman Hutto: Could you provide the Subcommittee with additional information on the Contractor Risk Assessment Guide Program since it involves self-governance by the industry, a concept many of us find hard to accept?

Ms. Brown: I firmly believe that we must creatively pursue all means of preventing fraud and abuse. The vast majority of contractors are honest, competent, and anxious to demonstrate their ability to do business efficiently and according to the highest ethical standards. The Contractor Risk Assessment Guide Program offers those companies the opportunity to understand exactly what internal control objectives the Government seeks. If the contractor can demonstrate to the Defense Contract Audit Agency's satisfaction that effective internal controls are in place, then the Government gains the opportunity to retarget its limited audit resources to areas where controls are known or suspected to be inadequate.

There is nothing in the Contractor Risk Assessment Guide Program that imperils the Government's interests in any way. Full disclosure of the methodologies used to test control systems and the results of system testing will be necessary before the Government considers reducing direct audit coverage. I hope that the Subcommittee can strongly support the program.

Chairman Hutto: Your staff is familiar with the Federal Acquisition Regulations and DoD procurement directives and regulations. There have been many comments made by sincere and knowledgeable people within the last few years that DoD has excessive procurement requirements and that an overhaul and simplification is required.

Do you believe this can be accomplished and the interests of the Government protected at the same time?

Ms. Brown: Yes, I believe that some simplification and reduction are possible. As your question infers, the difficulty lies in avoiding poorly conceived reduction done simply for reduction's sake and leading to the weakening of necessary safeguards. One way to ensure that full, informed analysis occurs would be to augment the present Defense Acquisition Regulatory Council staff and ensure that all members are assigned full time to that organization.

Mr. Hutto: The DoD audit resolution procedures provide that you can elevate a nonresponsive management reply to one of your audit reports to the Deputy Secretary of Defense for a decision. You state that this has been tremendously helpful in ensuring close management attention to your findings and recommendations.

About how many of your recommendations have been submitted to the Deputy Secretary within the last year and how many has he agreed with?

Ms. Brown: We were able to resolve 158 audit issues at various senior staff levels to my office's satisfaction without recourse to adjudication by the Deputy Secretary. It is very doubtful that all of those items could have been resolved if I lacked the authority to elevate disputed recommendations to the Deputy Secretary when necessary.

During the last year, I found it necessary to elevate several issues to the Secretary or Deputy Secretary. In one case, my auditors recommended that the Federal Acquisition Regulation definition of special test equipment (STE) be revised to exclude commercially available components and equipment, and to quantify the term "minor expense." The proposed change would permit contractors to recover the costs of STE with limited commercial application, while excluding general purpose, commercially available equipment. While the Deputy Secretary did not support this particular audit recommendation the issue received full and adequate consideration by proper management levels. That outcome was discussed on page 1-13 of my last semiannual report to the Congress.

I also had to seek the Deputy Secretary's intervention in an investigation involving the Board for Correction of Naval Records. This Board acts as a civilian appeal authority for military personnel actions. We found that recommendations of this Board were being reviewed by Navy and Marine Corps judge advocates prior to consideration by the Assistant Secretary. The DoD

General Counsel and Deputy Secretary Taft agreed with me that this interposition of uniformed officers in the review process was inconsistent with the law, and the Deputy Secretary directed the Navy to adopt our recommendations.

I should also mention the support I received from the Deputy Secretary in my efforts to take a larger role in investigations of senior civilian and military officials. My initial draft of a policy on reporting the results of investigations involving senior officials met with significant resistance and appeals by the Service Secretaries to the Secretary and Deputy Secretary of Defense. I met with the Service Secretaries and I was able to accommodate some of the Service concerns without compromising my basic goals, and I had the full support of the Deputy Secretary throughout this process. A policy memorandum was signed on March 24, 1989.

In addition, Secretary Taft supported my non-concurrance with the position taken by the Director of the Defense Security Assistance Agency in regards to bank record requirements in proposed revisions to DoD guidelines for Foreign Military Sales Financing of commercial contracts. Specifically, my office supported comments by the Department of Justice (DOJ) on the proposed revisions.

Our position was based on our investigative experience regarding fraud related to foreign military sales (FMS). We understood the great need to obtain information regarding bank records of companies and their officials. Many of our investigations have been delayed by the lengthy process of identifying and obtaining records in foreign banks. We believed the burden on contractors would be minimal and a resonable condition precedent to receiving FMS financing. While there was no direct precedent for that requirement under the Federal Acquisition Regulation, FMS are unique in that such contracts and financing often directly involve foreign financial institutions. There is no need to require access to foreign bank records under normal contracts because most non-FMS Department of Defense (DoD) contracts do not involve foreign financial institutions. So as a matter of policy, my office supported reasonable requirements that would facilitate access to such accounts as part of any FMS program.

So as you can see, the ability to the elevate disputed recommendations has proved to be of great value.

Chairman Hutto: Your budget shows that you were funded for 1,436 work years in fiscal year 1989 and that your fiscal year 1990 request is for 1,501 workyears, an increase of only 65 workyears.

Do you feel that your office can satisfactorily fulfill its responsibilities at that level? Has your office been able to accomplish the work planned for it at the beginning of the year?

Are there any areas you feel should be covered that are not scheduled for audit, inspection or investigation?

Ms. Brown: The increase from FY 1989 to FY 1990 reflects the full funding of personnel increases directed by Congress during the appropriation process for FY 1989. Those increases will permit the sufficient discharge of the Audit and Inspections functions of my office. The Investigations function is one which is necessarily scaled to available resources. The investigative personnel of my office have experienced phenomenal successes and I have every expectation such successes will continue. Added resources could clearly be employed in a highly productive manner. I am, however, fully supportive of the current budgetary controls.

Chairman Hutto: Will the new separate appropriation for your office have a favorable impact or do you feel it may cause some problems?

The Fiscal Year 1990-1991 budget request for your office includes $1,051,000 for procurement in FY 1990 and $1,041,000 for procurement in FY 1991. An explanation of how you intend to use these funds is not included in the procurement or O&M portion of the budget.

Could you explain to us what this money is to be used for? If you desire, you can provide it for the record.

Ms. Brown: I'd assess the new separate appropriation as neutral in terms of impact. This assumes necessary latitude will be incorporated into the appropriation language.

The requested procurement funds will be used predominately for automatic data processing (ADP) equipment and associated systems. A smaller amount of these dollars will be used for special technical equipment associated with criminal investigations.

The OIG seeks to achieve a number of economies and benefits through the use of ADP. Over the last year, we have identified, through several in-house requirements studies, an information technology baseline and our information needs. Specifically, we plan to eliminate duplicate systems and streamline and automate paper intensive and time consuming manual operations in both mission and administrative areas. In addition, through systems networking, we plan to improve internal information channels and to integrate critical mission data from audits, investigations, inspections, and followup activities. These networks and data bases will enable us to more efficiently produce required documents such as the Semi-Annual Report, to aggregate similar data for planning and analyses, to readily access audit and investigative results and cost savings, and to evaluate and act on trends which could prove beneficial in the management of DoD programs.

Chairman Hutto. In addition to conducting audits with your own audit staff you are also responsible for providing policy guidance and evaluating the performance of ten other audit organizations.

What are the other audit organizations in addition to those of the Military Departments and the DCAA?

You mention you evaluate the performance of these ten organizations. Would you care to give us your overall evaluation as to how each of these organizations perform?

Ms. Brown. The audit organizations in DoD are as follows:

Contract Audit
- Defense Contract Audit Agency
- Corps of Engineers Contract Audit

Internal Audit
- Office of the Assistant Inspector General for Auditing, OIG, DoD
- Army Audit Agency
- Naval Audit Service
- Air Force Audit Agency

Internal Review
- Army
- Navy
- Marine Corps
- Defense Logistics Agency

Nonappropriated Fund Audit
- Army and Air Force Exchange Services
- Navy Resale and Services Support Office
- Marine Corps Nonappropriated Fund Audit Service

My office conducts continuing oversight reviews of the performance of the contract and internal audit organizations. The responsibility for conducting external quality assurance reviews of the internal review and nonappropriated fund audit organizations has been delegated to the DoD internal audit organizations. The Naval Audit Service has recently completed external reviews of the Navy and Marine Corps nonappropriated fund audit activities and the Army Audit Agency recently issued a report on its oversight review of the Army and Air Force Exchange Service. The Army Audit Agency, Naval Audit Service and Office of the Assistant Inspector General for Auditing are currently conducting external quality reviews of the DoD internal review organizations for which they have cognizance.

The quality of work audit work performed by internal review varies by individual field office because the operations of internal review activities are decentralized to the installation or activity level. The performance of individual field internal review office is heavily influenced by such factors as level of support by commanding officer, quality of audit staff, mission of installation, etc. Based on our knowledge of DoD internal review organizations and the results of past oversight reviews by DoD internal audit organizations, I would rank the Army Internal Review organizations above the other internal review organizations in terms of accomplishments and quality of audit work. I attribute the better performance of Army Internal Review to a more structured and effective oversight program by elements of the Office of the Secretary of the Army.

As for the nonappropriated fund activities, I believe that the Army and Air Force Exchange Service and Marine Corps Nonappropriated Fund Audit Service have highly professional and capable audit staffs. A recent review by the Naval Audit Service disclosed major quality problems in the performance of the Navy nonappropriated fund audit activity. I am presently providing your staff with copies of audit oversight reports issued by my office. I will be glad to also provide your staff with copies of the oversight reports issued by the DoD internal audit organizations.

Chairman Hutto. You said in your statement that the Naval Audit Service is making significant strides in improving its overall audit effectiveness by focusing on broader issues and more significant Navy programs and operations. Could you provide us with some examples of the type of work the Naval Audit Service is doing today compared to last year?

Ms. Brown. Prior reports issued by my office and the GAO criticized the Naval Audit Service for performing a large number of narrowly scope audits of a compliance nature, narrow in scope audits, called activity audits, during FYs 1985 and 1986. In FY 1986, for example, activity audits accounted for 55 percent of the audit hours expended and 64 percent of the published reports. In reaction to our recommendations, the Naval Audit Service has steadily transitioned to more complex program audits during the past 2 to 3 years. The FY 1989 audit plan shows that 55 of the 58 new audit starts are the more complex, multi-location type audits. Examples of recent Navy audit reports that focus on broader issues and more significant Navy programs and operations are:

o Management of The Support Equipment Program, Report No. 028-C-89, dated 6 April 1989.

o Standard Automated Financial System, Report No. 042-W-89, dated 3 April 1989.

o Budgeting For Selected Military Construction Projects At Naval Submarine Bases, Kings Bay, Georgia, Report No. 041-S-89, dated 24 March 1989.

o Logistics Planning For The Maritime Prepositioning Ships Program, Report No. 030-C-89, dated 28 February 1989.

o Project Management Audit of NAVAIR'S Supersonic Low Altitude Target (SLAT) Program, Report No. 004-C-89, dated 13 February 1989.

o Management of Aerial Target Systems, Report No. 009-W-89, dated 21 December 1988.

Chairman Hutto. According to your statement the Naval Audit Service has instituted additional controls to preclude undue command influence over audits. Since this probably had a significant impact on the areas covered by the Naval Service Service, could you describe the controls that have been implemented?

Ms. Brown. The Naval Audit Service has instituted controls to preclude undue command influence over audits. These new controls include:

o The Auditor General of the Navy reports directly to and meets frequently on audit matters with the Under Secretary of the Navy, the Honorable H. Lawrence Garrett, III. The Honorable Lawrence Garrett has recently been nominated as the Secretary of the Navy.

o Highly qualified civilian audit managers now head the four regions of the Naval Audit Service.

- The legal counsel now reports to the Auditor General of the Navy on legal issues raised in audit reports.
- The Naval Audit Service has issued policy guidance changing methods of seeking technical advice and regulatory interpretations from the Navy Comptroller and other major policy directorates. Current policy requires regional office personnel to contact the Headquarters Naval Audit Service for required information. The Headquarters then obtains the needed policy interpretations from Department of the Navy officials.
- Special emphasis is placed on audit independence during internal quality control reviews performed by the Naval Audit Service.

Chairman Hutto: You mentioned in your statement that you have direct operational control of only 5 percent of the 22,000 personnel assigned to Audit, Inspection and Investigative organizations.

How many of these 1100 people conduct audits, inspections and investigations of the Defense Department and how many are involved in policy, audit coordination and your other oversight functions?

Ms. Brown: Of the 1531 positions currently authorized for my organization, 1303 are involved in Audits, Inspections and Investigations. Additionally, 114 are involved in policy, audit coordination and oversight functions. For information, the remainder of the authorized positions are general management and administrative positions in support of the entire organization.

Chairman Hutto: The Inspector General Act gives your office the responsibility for seeing that actions promised by DoD components in response to audits and reviews are implemented. In most Federal agencies this responsibility is assigned to management officials.

Are you satisfied with this arrangement? It would appear that while this function is time consuming, it provides your office with a mechanism to ensure that problems developed are corrected?

Ms. Brown: I am very satisfied with the structure of the DoD audit followup effort. My lead role in tracking the status of corrective actions on my reports and on GAO reports enables me to ensure that agreed-upon measures are taken. We are finding that the DoD has virtually no problem complying with the rigorous audit followup reporting requirements of the Inspector General Act Amendments of 1988, since data on both reports issued and status of corrective actions are already compiled in one data base and in the required detail.

Having the audit followup tracking responsibility for IG, DoD, and GAO reports also enables well coordinated onsite verification effort by auditors, inspectors, and followup personnel. Audit planning is also enhanced by ready access to current followup information.

My policy and oversight role for Military Department audit followup programs is also important for ensuring that the internal and contract audit reports issued by other DoD audit organizations are fully utilized.

It is definitely correct that the audit followup function is demanding--between 80,000 and 90,000 audit and internal review reports are issued annually by DoD auditors. There is considerable payoff and satisfaction, however, in maintaining a strong audit followup effort.

Mr. HUTTO. Thank you very much. We appreciate your good work and look forward to hearing from you.

Mr. VANDER SCHAAF. Thank you.

Ms. BROWN. Thank you, Mr. Chairman.

[Pause.]

Mr. HUTTO. At this time, we will call forward Mr. William H. Reed, the Director of the Defense Contract Audit Agency.

Mr. Reed, we welcome you before the subcommittee, and we are ready to hear your statement.

STATEMENT OF WILLIAM H. REED, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

Mr. REED. Thank you, Mr. Chairman.

The Defense Contract Audit Agency appreciates the opportunity to appear before this committee this morning and tell you a little bit about what DCAA has been doing and our accomplishments.

I would like to spend just a few minutes to provide brief comments about DCAA for perhaps the benefit of some of the members who are new to the committee.

In the interest of time, I am going to summarize my comments and submit a full statement for the record.

Mr. HUTTO. Yes, your full statement will be entered into the record.

Mr. REED. Thank you.

DCAA was established in July of 1965 by the Secretary of Defense to perform all contract audit and financial advisory services for the Department of Defense in connection with procurement and contract administration.

Prior to the formation of DCAA, the responsibility for contract auditing was fragmented among various audit organizations within the Army, Navy and Air Force. DCAA now supports the acquisition process by providing all DOD officials responsible for procurement and contract administration with audit advice on proposed or existing defense contracts.

Also, we provide these audit services on a reimbursable basis to about thirty-five other Government agencies.

DCAA responsibility for providing contract audit services to contracting officers is significantly different than the responsibility of DOD internal audit and investigative organizations as well as the General Accounting Office.

I think Ms. Brown has pretty much covered those differences this morning in terms of laying out the roles of her organization and the internal audit group. So, I will not dwell on that further.

As I noted, DCAA's primary mission is an integral part of the acquisition process. As such, we must be responsive to the needs and demands of the acquisition community while maintaining the independence necessary to comply with Government auditing standards.

We have a long tradition of providing high-quality support and tough objective audit reporting. Typically, cost avoidances or savings from audit recommendations have exceeded the agency's operating budget by better than $30 for each one dollar of our budget with fiscal year 1988 results showing savings of $9.5 billion, a ratio of $34 for each one dollar of our budget.

I would like to just briefly comment on some of the types of audits we do and some of the results in the specific areas.

The Federal Acquisition Regulations require procurement officials to comply with various administrative procedures before entering into negotiated contracts. An important procedure is the request for the field pricing report which may include an audit of the contractor's pricing proposal.

During fiscal year 1988, approximately 38 percent of our audit effort was spent on the evaluation of 27,000 proposals with a value of $233 billion. We took exception to $23 billion of those amounts.

While we do not have the negotiation results on many of those audits as yet, historically, contracting officers have sustained approximately 56 percent of our recommendations.

The acquisition regulations also require DCAA to audit costs incurred on costs reimbursable, fixed-price incentive and other types of flexibly-priced contracts. We determine the acceptability of costs in accordance with contract terms, including applicable cost accounting principles, and standards.

During fiscal year 1988, about 40 percent of our audit effort was devoted to incurred costs. We took exception to $2 billion of costs audited in fiscal year 1988. Historically, contracting officers have sustained 67 percent of our recommendations in this area.

We have also made recommendations for significant accounting changes and cost controls which are expected to avoid substantial costs in the future. The committee has already received testimony this morning regarding material accounting, for example.

Another responsibility of DCAA is to perform post-award audits in compliance with the Truth in Negotiations Act. These audits are performed to determine whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete or current cost or pricing information when negotiating the contract.

Where it is determined that the price was increased as a result of a non-compliance with the law, the Government is entitled to a price adjustment. Current law provides for recovery of the amount of defective pricing plus interest an any overpayment and a penalty under certain conditions.

During fiscal year 1988, 7 percent of our resources were applied to performing 1,700 of these audits, culminating in recommended price adjustments of $750 million. Historically, contracting officers have sustained 48 percent of our recommendations in this area.

There are various other kinds of audit activities that DCAA performs and without going through all of them, I would just like to note that approximately 15 percent of our effort in this other audit category includes such activities as reviewing contractor equitable adjustment claims, maintaining liaison auditors at major procurement activities, providing audit support at negotiating conferences where audit reports are being used in negotiation the prices, and providing audit assistance to investigative agencies.

Providing effective audit service to the acquisition community also calls for DCAA to be pro-active in influencing needed audit policy or acquisition policy reforms and to be sensitive to overall concerns about Government oversight.

For example, in response to the Packard Commission recommendations that we encourage contractor self-governance, we have worked with the Inspector General and industry to develop the contractor risk assessment guides, commonly referred to as CRAG. This is a program to encourage contractors to develop more effective internal control systems.

I recently made a series of briefings to the Board of Directors Audit Committees of nine of the largest defense contractors explaining the need for contractor self-review and compliance with procurement regulations.

Defense contractors have a contractual obligation to adhere with the procurement regulations, and we believe that if contractors increase their efforts on self-review and provide us with the documentation supporting their review, then we may be able to reduce the scope of our audits and not duplicate their work. This perhaps will also address some of their perceptional concerns regarding the number of auditors that they are complaining about tripping through their plants.

We have worked hard to improve communications with the acquisition community. I have met with the Under Secretary of Defense for Acquisition to identify which audits he believes should be given priority. We have also met with top acquisition officials in the military departments and in the Defense Logistics Agency to identify and address problem areas.

Finally, I meet regularly with representatives of the procurement community during DOD inter-departmental staff and joint contract administration coordinating council meetings, to discuss contracting and audit issues.

We also have worked closely with the DAR Council on several cases to improve procurement regulations. On March 18th, for example, in 1988, the DAR Council published a final rule to establish coverage requiring large defense contractors to establish, maintain, disclose and utilize adequate estimating systems.

The case was particularly important due to the large number of deficiencies that we had identified during reviews of contractors' pricing proposals.

Over the last several years, we have sought other changes to the acquisition regulations that would eliminate many of the disagreements regarding access to records. DCAA's access to contractor information relies largely on the contract terms and court interpretations of contractual language.

The 1988 Appellate Court decision which denied DCAA access to internal audit reports of Newport News Shipbuilding and Drydock Company precipitated a DCAA reassessment to ascertain the impact of this decision on our audit efforts at other contractor locations.

Requests for access to similar contractor records, such as computer data, internal audit plans, tax returns, management reports, employee interviews, etc., have met greater resistance because of the court ruling on the Newport News case.

Such denials and the ensuing discussions and efforts to resolve them can adversely impact the timeliness of our audit service, not to mention the effectiveness of those services.

In August of 1988, a proposed rule, which would modify the audit negotiation clause, was published in the Federal Register. The proposed change was a positive step insofar as clarifying that the right of access was not limited in any way simply because of the form of the records.

However, the proposed change fell short of providing the overall clarity needed to ensure auditor access to contractor records.

We are currently working with the DAR Council to develop more comprehensive language that will address this issue.

You asked that we comment on our staffing and our workload, and I would like to do that at this time.

At the end of fiscal year 1988, we had a backlog of unaudited contract costs of $163 billion. This backlog has accumulated over several years where audit resources did not keep pace with increased defense spending.

Just as it took several years to accumulate, it will take several years to complete this work while continuing to meet our current responsibilities.

In fiscal year 1987, with the DOD Comptroller's support, a 5-year plan of gradually increasing auditor staffing was laid out to eliminate the backlog. This plan has been reflected in DOD's and ultimately the President's budget. Unfortunately, budget reductions have impeded these plans somewhat.

In fact, we ended fiscal year 1988 with 300 less auditors than in fiscal year 1987. We have accordingly slipped in our plan to reduce the backlog and the plan now extends through 1994.

Hiring and training additional auditors that have been provided for in the fiscal year 1989 Defense Authorization Act, cannot be done overnight. Our current authorized funding and hiring plan will achieve the end strength of 7,007 by September 30, 1989, but the new staff will have minimal impact in fiscal year 1989.

What we need is to maintain that level with full funding through fiscal year 1994 if we are to complete this work. Obviously, this is going to be difficult considering the likely budget constraints of the years ahead. The ramifications of not doing so are delays in closing contracts and recovering over-payments for unallowable costs, reduced capability to accurately estimate new contract prices through reliance on historical costs and audit experience, and increased risk of abusive or fraudulent practices remaining undetected.

In summary, Mr. Chairman, the DCAA continues to provide effective support to the acquisition community in ensuring that available dollars are spent wisely and in accordance with regulatory requirements.

We are also mindful of our role in supporting the acquisition reform and are working closely with the Comptroller and the Under Secretary of Defense for Acquisition in joint pursuit of improvements.

As I noted earlier, DCAA has returned over $30 in savings or cost avoidance for each dollar of our operating costs for several years. That kind of contribution to the defense effort will be even more important in the years to come. With decreased defense budgets, we must get full value for every available defense dollar.

I thank you, Mr. Chairman, for the opportunity to appear before you today, and I would be willing to take any questions you may ask at this time.

PREPARED STATEMENT OF WILLIAM H. REED, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

Mr. Chairman, I appreciate the opportunity to appear before you and this subcommittee to discuss the operations of the Defense Contract Audit Agency (DCAA). Since many of the members are new to this subcommittee, I would like to present a few comments describing DCAA and how we differ from other audit organizations.

BACKGROUND

DCAA was established in July 1965 by the Secretary of Defense to perform all contract audit and financial advisory services for the Department of Defense (DoD) in connection with procurement and contract administration. Prior to the formation of DCAA, the responsibility for contract auditing was fragmented among various audit organizations within the Army, Navy and Air Force. DCAA now supports the acquisition process by providing DoD officials responsible for procurement and contract administration with audit advice on proposed or existing defense contracts. Also, we provide these audit services on a reimbursable basis to about 35 other Government agencies.

DCAA responsibility for providing contract audit service to contracting officers is significantly different than the responsibility of DoD internal audit and investigative organizations, as well as the General Accounting Office.

The Internal Audit activities of the Military Services audit the programs and operation of their respective Services. They do not perform any contract audits and rely on DCAA if any contractor financial information is required in connection with their program reviews.

The DoD Inspector General conducts audits of all DoD programs and operations and has oversight and audit policy responsibility for all DoD audit and investigative organizations. The DoD IG is also responsible for ensuring that effective coordination and cooperation exists among the audit, inspection, and investigative units in the Department of Defense. For example, while DoD investigative organizations are primarily responsible for the investigation of fraud or similar unlawful activity, we routinely refer alleged suspected frauds to the appropriate investigative organizations. During the last three fiscal years, DCAA auditors have alerted investigators to almost 800 potential cases of fraud. Upon request, we provide contract audit support and financial advice to investigative organizations pursuing our referrals or other suspected irregularities.

As the members of this subcommittee are aware, the General Accounting Office has broad authority for conducting audits and investigations of the executive departments and agencies. In connection with the audit of the procurement function, the GAO is granted access to contractors' records by law and by contract provisions. GAO reviews specific DoD programs, contractors, contracts or specific contract actions. We coordinate with and cooperate fully with the GAO.

ACCOMPLISHMENTS AND MAJOR WORKLOAD CATEGORIES

As noted earlier, DCAA's primary mission is an integral part of the acquisition process. As such we must be responsive to the needs and demands of the acquisition community while maintaining the independence necessary to comply with the government auditing standards. We have a long tradition of providing high quality support and tough objective audit reporting. Typically, cost avoidances or savings from audit recommendations have exceeded the Agency's operating budget by better than $30 for each $1 of our budget with FY 1988 results showing savings of $9.5 billion, a ratio of $34 for each $1 of our budget. At this point I should note that there would be little or no savings except for the effective support and negotiating skills of contracting officers responsible for resolving our audit recommendations.

Now I'd like to provide some detailed insight into what we do by mission area.

Forward Pricing

The Federal Acquisition Regulations (FAR) require procurement officials to comply with various administrative procedures before entering into negotiated contracts. An important procedure is the request for a field pricing report which may include an audit of the contractor's pricing proposal. These audits must be accomplished within a short period of time in order to complete the award of a contract. During Fiscal Year 1988, approximately 38 percent of our audit effort was spent on the evaluation of 27 thousand proposals with a value of $233 billion. We took exception to $23 billion. While we don't have the negotiation results on many of these audits as yet, historically contracting officers have sustained 56 percent of our recommendations. These reductions play a significant role in enabling contracting officers to purchase the needed equipment and materials within their budgeted levels. Here are some examples of these reviews:

1. A forward pricing review of a firm-fixed-price proposal disclosed that the contractor had included in the proposal some material escalation factors and labor hours that exceeded historical data on similar contracted effort. Based on the audit, the contracting officer negotiated a contract price reduction of $23 million.

2. On a $26 million proposal, we found that the contractor was using estimates for material cost, when in fact the materials were already purchased and in inventory. The actual cost was at significantly lower prices than that proposed. The audit saved the Government $3 million.

3. Finally a review of $10 million of proposed warranty costs found that the contractor had duplicated most of the costs in its separate proposal for the weapons system. The contracting officer sustained the audit position and reduced the negotiated warranty cost by $8 million.

Incurred Cost

The acquisition regulation requires DCAA to audit costs incurred on cost reimbursable, fixed price incentive, and other types of flexibly priced contracts. We determine the acceptability of costs in accordance with contract terms, including applicable cost accounting principles and standards. During Fiscal Year 1988, about 40 percent of our audit effort was devoted to incurred costs. We took exception to $2 billion of costs audited in FY 1988. Historically contracting officers have sustained 67 percent of our recommendations. We also made recommendations for significant accounting changes and cost controls which are expected to avoid substantial costs in the future.

A good example is our special audit of contractor consulting costs. A task force was assembled and conducted audits at 60 segments of 12 major contractors during August and September 1988. Our October 1988 report indicated that the contractors had submitted certified indirect cost claims to DoD containing $46 million of questionable costs of which an estimated $19 million would, if allowed, be absorbed on DoD cost-type and fixed-price incentive contracts. The review also disclosed numerous internal control deficiencies and a general lack of good contractor management over the hiring and reimbursement of consultants.

In another audit, we questioned costs of an internal review of commissions on sales to foreign countries. Under the Federal Acquisition Regulations such costs were not allocable to U.S. Government contracts. The contractor subsequently agreed to a settlement resulting in net savings to the government of $2 million.

Another DCAA incurred cost review resulted in net savings of $8.2 million to the Government. The auditor's review of the contractor's performance records revealed that the contractor had been charging "low value" purchased materials both directly and indirectly to contracts over a 12 year period. The auditor also found that the low value items charged indirectly were more identifiable to commercial products and not allocable to Government contracts.

Between November 1985 and September 1986, DCAA performed audits of eight major contractors' automated material requirements planning systems (known as MRPs) and found major deficiencies in most of them. As a result, DCAA requested all larger contractors using these systems to self-assess their MRPs in light of ten common deficiencies. Subsequently, your subcommittee initiated hearings on the review of defense contractors' MRPs and made various proposals for constructive action. In addition, DoD established an Ad Hoc Study Group made up of DCAA, other DoD personnel, and industry representatives. It developed the ten key elements for material management and accounting systems in December 1987. Contractors were instructed to demonstrate the degree their material management and accounting systems complied with the ten key elements and provide an action plan for correcting any system deficiencies.

Since mid-1988, DCAA has been actively evaluating contractor MRP demonstrations, corrective action plans, and voluntary withholdings of progress payment billings. Where appropriate, recommendations have been made resulting in additional withholding of progress payments. This process is continuing today. As of 31 December 1988, recommended and actual progress payment reductions exceed $760 million. Of this amount, more than $300 million represent reductions made voluntarily by contractors. In addition, one company has refunded or made concessions to settle MRP related deficiencies of $98 million.

Post Award Audits

DCAA also performs post award audits in compliance with the Truth in Negotiations Act. These audits are performed to determine whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete, or current cost or pricing information when negotiating the contract. Where it is determined that the price was increased as a result of noncompliance with the law, the Government is entitled to a price adjustment. Current law provides the recovery of the amount of defective pricing, plus interest on any overpayment and a penalty under certain conditions. During Fiscal Year 1988, seven percent of our resources were applied to 1,700 of these audits culminating in recommended price adjustments of $750 million. Historically contracting officers have sustained 48 percent of our recommendations. The following are examples of findings in these audits.

1. During a postaward review, our auditors found that a contract had been overpriced because the contractor had submitted inaccurate cost data from a prior contract for raw material and scrap. The Government relied on the inaccurate data to negotiate the price for similar work on a new firm-fixed-price contract. Based on the auditor's report, the contracting officer negotiated a contract price reduction of $2 million.

2. Another DCAA postaward review resulted in savings of $1 million to the Government when the auditor found that the contractor had a history of purchasing aluminum powder in the lower priced "spot" market rather than the higher "prime" price market as proposed on the contract. The contractor hadn't disclosed this practice during contract negotiations.

Other Audit Activity

Although not all inclusive, I would like to mention a few examples of findings in other audit activities. These types of audits accounted for 15 percent of our audit effort in Fiscal Year 1988.

A DCAA review of a subcontractor's equitable adjustment claim resulted in savings of $2 million to the Government. The subcontractor claimed additional labor and material costs incurred due to alleged delays and changes caused by the Government. The auditor found the cost overruns were related to subcontractor inefficiencies and not due to Government caused delays or changes. The auditor also found that the claim included duplicated direct and indirect costs, unallowable expenses, and costs not obligated to be paid by the subcontractor.

In a second case, a subcontractor claimed additional indirect costs incurred due to alleged delays caused by the Government. The auditor demonstrated to the contracting officer that the subcontractor's indirect costs had not increased nor had the subcontractor's overall business volume decreased. The contracting officer negotiated a reduction of $11 million in the claim.

As noted earlier in my testimony, another important DCAA responsibility is audit support to investigators. For example, last October, the Justice Department settled a significant fraud case with Sundstrand Corp. in which that firm agreed to pay rebates, fines and penalties amounting to $115 million. DCAA's review of the contractor's design and development contracts and inventory scrap practices produced the initial referral to the investigators. Our auditors found that cost overruns on design and development contracts were being included in billing rates paid by the Government. We also found that the contractor sold at a loss valuable excess inventory to a contractor-controlled inventory warehousing company and subsequently used this "sold" inventory in the performance of other Government contracts. Since the loss in value of the disposed inventory was billed to the Government, the Government paid twice for the same part: once as an indirect scrap loss write-off and again as a direct cost during performance of a contract. These reviews touched off a joint investigation with DCAA, support by the FBI, the Defense Criminal Investigation Service, and the IRS. The contractor plead guilty to four counts of criminal conspiracy for defrauding the Government and agreed to administrative settlements on associated contracts, which were concluded early this year for an additional $75 million in credits to the Government.

In yet another type of audit, a DCAA review of a contractor's progress payments claimed under three contracts found that the contractor had claimed costs of cloth material not received, had altered material receiving reports, and had billed the Government for "second" quality cloth material rather than first quality cloth required by the contract. The review was performed in connection with an investigation by the Defense Criminal Investigative Service. After being indicted by a Grand Jury, the president of the company entered a nolo contendere plea to one count of the indictment and refunded $602,000 to the Government.

INITIATIVES

Providing effective audit services to the acquisition community also calls for DCAA to be proactive in influencing needed audit policy or acquisition policy reforms and to be sensitive to overall concerns about Government oversight. For example, in response to the Packard Commission recommendations that we encourage contractor self-governance, we have worked with the IG and industry, to develop the Contractor Risk Assessment Guides commonly referred to as the CRAG. This is a program to encourage contractors to develop more effective internal control systems. There are currently five CRAG chapters covering the following risk areas: Indirect Cost Submissions, Labor Charging, Material Management and Accounting Systems, Estimating Systems, and Purchasing.

I recently made a series of briefings to the board of directors audit committees of 9 of the largest defense contractors explaining the need for contractor self-review and compliance with procurement regulations. Defense contractors have a contractual obligation to adhere with procurement regulations. If contractors increase their efforts on self-review and provide us with the documentation supporting their review, then we may be able to reduce the scope of our audits and not duplicate their work. This does not mean turning over our audit responsibilities to contractors, but the more contractors demonstrate compliance with procurement regulations, the more effective we will be in using our audit resources.

We have worked hard to improve communications with the acquisition community. I met with the Under Secretary of Defense for Acquisition to identify which audits he believes should be given priority. We also have met with top acquisition officials in the military departments and the Defense Logistics Agency (DLA) to identify and address problem areas. For example, to address concerns raised by DLA officials, I directed that we assign a high priority to incurred cost reviews of certain over aged contracts. To assist the acquisition community in reducing the number of days to complete a contract award, I have established goals for DCAA Regional Managers to reduce the number of days it takes to issue audit reports. Finally, I meet regularly with representatives of the procurement community during DoD Interdepartmental Staff and Joint Contract Administration Coordinating Council meetings to discuss contracting and audit issues.

We have also worked closely with the Defense Acquisition Regulatory Council (DARC) on several cases to improve procurement regulations. On March 18, 1988, the DAR Council published a final rule to establish coverage requiring large defense contractors to establish, maintain, disclose and utilize adequate estimating systems. This case was particularly important due to the large number of deficiencies that we had identified during reviews of contractors' pricing proposals. These deficiencies have historically hampered our review of such pricing proposals. In addition, I believe that the high ratio of defective pricing actions which we experience are due, in large part, to estimating systems deficiencies. Contractors adherence to this new regulation should produce more reliable proposals.

Over the last several years, we have sought changes to the acquisition regulations that would eliminate many of the disagreements regarding access to records. DCAA's access to contractor information relies largely on contract terms and court interpretations of contractual language. The 1988 Appellate Court decision which denied DCAA access to the internal audit reports of Newport News Shipbuilding and Drydock Co. precipitated a DCAA assessment to ascertain the impact of this decision on our audit efforts at other contractor locations. Requests for access to similar contractor records, such as computer data, internal audit plans, tax returns, management reports, employee interviews, etc., have met greater resistance because of the court's ruling. Such denials, and the ensuing discussions and efforts to resolve them, can adversely impact the timeliness of our audit services.

In August 1988, a proposed rule which would modify the audit negotiation clause was published in the Federal Register. The proposed change was a positive step insofar as clarifying that the right of access was not limited in any way simply because of the form of a record. However, the proposed change fell short of providing the overall clarity needed to ensure auditor access to contractor records. We are currently working with the DAR council to develop more comprehensive language that will address this issue.

We have also been working on internal steps to improve our productivity without forsaking quality. We developed better risk assessments to ensure effective allocation of audit resources. Where possible, audit resources are directed to high payoff areas. We have also increased our use of computers in the performance of our audits, management planning and reporting, personnel functions, communication and retrieval of information. The constant evolution of better, faster, easier to use microcomputers, software and mainframe retrieval programs provides an opportunity to further improve our audit capability.

STAFFING AND BACKLOG

At the end of FY 1988 we had a backlog of unaudited contract costs of $163 Billion. This backlog has accumulated over several years where audit resources did not keep pace with increased Defense spending. Just as it took several years to accumulate, it will take several years to complete this work while continuing to meet our current responsibilities.

In FY 1987, with the DoD Comptroller's support, a five year plan of gradually increasing auditor staffing was laid out to eliminate the backlog. This plan has been reflected in DoD's and ultimately the President's budget. Unfortunately budget reductions have impeded these plans somewhat. In fact we ended FY 1988 with 300 less auditors than in FY 1987. We have accordingly slipped in our plan which now extends through 1994.

Hiring and training the additional auditors provided for in the Fiscal Year Defense Authorization Act cannot be done overnight. Our current authorized funding and hiring plan will achieve the end strength of 7007 by September 30, 1989 but the new staff will have minimal impact in FY 1989. What we need is to maintain that level with full funding through FY 1994 if we are to complete this work. Obviously, this is going to be difficult considering the likely budget constraints in the years ahead. The ramifications of not doing so are delays in closing contracts and recovering overpayments for unallowable costs, reduced capability to accurately estimate new contract prices by reliance on historical cost and audit experience, and increased risk of abusive or fraudulent practices remaining undetected.

In summary, Mr. Chairman, the DCAA continues to provide effective support to the acquisition community in assuring that available dollars are spent wisely and in accordance with regulatory requirements. We are also mindful of our role in supporting acquisition reform and are working closely with the Comptroller and the Undersecretary of Defense for Acquisition in joint pursuit of improvements. As I noted earlier, DCAA has returned over $30 in savings or cost avoidance for each dollar of our operating cost for several years. That kind of contribution to the Defense effort will be even more important in the years to come. With decreased Defense budgets, we must get full value for every available Defense dollar.

Again, I thank you Mr. Chairman and the members of this subcommittee for the opportunity to discuss the operations of the Defense Contract Audit Agency. I will be pleased to respond to any questions that you may have.

Mr. HUTTO. Thank you, Mr. Reed. We appreciate your testimony and your comments. Certainly you are doing things that need to be done.

I am no expert in auditing. You mentioned a figure of $163 billion in the audit backlog. Just what do you mean by that?

Mr. REED. These are dollars which have been spent on what are referred to as flexibly priced contracts, where the payment is based on the actual cost incurred. Contractors bill this cost to us on a provisional basis, subject to final audit.

DCAA must perform audits of all those billings before those contracts can be closed. That is what constitutes the $163 billion. Costs that have been incurred and provisionally billed to the Government that are awaiting audit so those contracts can be closed.

Mr. HUTTO. How many contracts are included in that $163 billion?

Mr. REED. I do not have that number, but it is thousands.

Mr. HUTTO. Thousands.

Mr. REED. Thousands.

Mr. HUTTO. This backlog grows in fiscal year 1989 amounting to approximately a $170 billion, I believe I see from the figures that there is a down trend, though.

When do you expect to have this backlog taken care of?

Mr. REED. If we are able to sustain the level which was authorized in fiscal year 1989 of 7,007 auditors and support staff with full funding through 1994, we will eliminate this backlog.

In 1989 and 1990, while we are making progress, we will still not be able to even do one complete year's worth of incurred costs work. We will not turn the corner until 1991, when, for the first time, we will not only audit all of the incurred costs that came into the pool of costs to be audited, but we will start to eliminate some of the costs in the prior years. This is the way this has to be attacked, methodically, over a sustained period of time.

It is just too big to try and bite it off all in 1 year.

Mr. HUTTO. How far back does this go? How many years?

Mr. REED. We currently have completed all of our audits through 1979. We still have a handful of audits through 1980 and 1982. The bulk of these contracts—these costs were incurred in the 1983 forward time period.

Mr. HUTTO. Do you mean that there are some contractors who did work for the Government 9 years ago that have not been paid yet?

Mr. REED. No, sir, I do not mean that at all.

They have been provisionally reimbursed and we have withheld certain amounts of money in contemplation of what potential disallowances of those billings might be. What is needed now are the audits to determine the final allowable payments.

Mr. HUTTO. On Page 16, you state that you ended fiscal year 1988 with 300 fewer auditors than in fiscal year 1987. Now, what was this?

Mr. REED. This was because of the mandatory ceiling applied to DCAA as a result of the Goldwater-Nichols DOD Reorganization Act.

We were required to reduce by attrition, down to a staff of 5,761 by September 30th, 1988, and we did so.

Mr. HUTTO. On Page 1 you point out that the DCAA performs all contract audit and financial advisory services with the DOD for procurement and contract administration.

What does this really mean? What kind of financial advice do you render; and what, in your opinion, are the major problems now facing defense procurement?

Mr. REED. The financial advice can be just about anything that one can imagine occurring in connection with the contracting officer carrying out his responsibilities to negotiate and administer a contract.

There are certain types of audits that are specified by law or regulation which I have covered this morning. The incurred costs, the price proposals. Other areas, for example, progress payments. If a company has a firm fixed price contract and wish to get provisional advance payments they submit claims called progress payments. DCAA audits those kinds of submissions for the contracting officer.

If a contracting officer is concerned about a change in the contractor's accounting system, a change in his pension plan, a change in his compensation policies, he would come to DCAA for advice regarding the appropriateness of those changes and the impact on the contracts.

Mr. HUTTO. You mentioned that in the last 3 years you referred about 800 potential suspected fraud investigations to DOD investigative organizations.

What kind of fraud are you referring to, and how were these 800 cases resolved?

Mr. REED. The types of fraud is not an area that DCAA attempts to articulate. We train our people on fraud indicators under various statutes and our responsibilities for reporting. Our charge to our auditors is if they have a reasonable suspicion that it appears to be an irregularity under any of those indicators, then make a referral.

A referral does not say this is a violation of the False Claims Act or other law. It just says we think there is something suspicious here and people who are trained investigators need to take a look at it and see if it is a problem.

As far as how many of those resulted in impact is very difficult to say because of the many-faceted resolutions that go on. Certainly, there have been some rather substantial settlements in 1988 and 1989 to date as a result of some of our referrals.

For example, the recent case at Sunstrand Corporation, which resulted in a well-publicized $115 million refund to the Government. The company has also agreed to another approximately $100 million in other adjustments as a result of those actions. That is a rather remarkable case of course.

I would say the largest percentage of these cases are resolved through administrative settlement. Very few get to the indictment stage and very few actually go all the way through the courts. That is why it is very difficult for me to say exactly how the 800 were disposed of.

Mr. HUTTO. Thank you. As I recognize other members, I would remind you that we do have another witness here. So, please be as brief as possible, and we will try to adhere to the 5-minute rule.

Mr. Lancaster.

Mr. **Lancaster**. Mr. Reed, we have received complaints in our office about some slow pre-award contract audits that have held up procurements and, of course, you point out in your statement the substantial backlog of unaudited contract costs, and that budget reductions have prevented you from fully staffing your organization.

Do you think you might be better off if you came under DOD IG, that you might get better support if you were a part of that agency as opposed to standing on your own?

Mr. **Reed**. No, I do not think I would.

I believe the agency has been very well supported by the Department. We have certainly received excellent support in the Congress. As Derek Vander Schaaf testified, any time we need that extra little support from the Inspector General, we get it very readily and as effectively as if I was actually a part of that organization.

There are some operational problems presented outside of just getting staff by that particular alignment. As I mentioned, we are part of the acquisition process in terms of advising contracting officers. We are not an oversight organization in the sense of the Inspector General.

It would put us in the awkward situation of advising the contracting officer on how to handle an audit issue and then turning around and coming in as part of the Inspector General organization and assessing how well he dealt with the issue. I think that would be a difficult situation to put the contracting officer in.

Mr. **Lancaster**. Several aspects of your testimony caused me to worry about the quality of our auditing workforce. Several of the successful audits you mentioned are not particularly impressive instances of brilliant auditing. In fact, in many cases, it is more like auditors caught contractors doing obviously stupid things.

For example, you discovered a contractor was pricing items differently than in a previous contract. You discovered a contractor had duplicated most of his costs in a separate proposal for a weapons system.

Further, you cite examples of post-award audits which showed that the Government had accepted erroneous pricing data.

First of all, is the Government not really DCAA and are you not really discovering your own mistakes? Last, the contracting officers seem to accept somewhere in the 50 to 40 percent range of your recommendations, which does not seem to be very impressive.

So, if you would, address the issue of the quality of your auditors and if they are doing a good job, why are so few of their recommendations accepted by the contracting officers?

Mr. **Reed**. I would be glad to do so.

First of all, in regards to what appears to be rather simple statements of those findings, I would submit that we are dealing with some of the most sophisticated accounting and financial systems in the world.

When you walk into General Dynamics, you do not just walk over and accidentally discover that there are some costs being billed on one contract that had previously been charged to another. It takes some very effective analytical methods and some very well-trained people to pick up these situations. When you summarize it in these brief little statements, as I have done here in these examples, perhaps it does sound simple, but, believe me, it is not.

In regards to discovering our own mistakes in the case of post-award area, the contractor is responsible for submitting current, accurate and complete cost or pricing data to the Government, and he certifies that he has done so.

We have no way of determining in advance that we have the exact same standing and current, accurate and complete information, as the contractor negotiator does when we go to the negotiation table.

As you mentioned, timeliness is a big issue in these price proposal reviews. Typically, the Government's audit is done in thirty to 60 days, total, and you cannot scrutinize every document.

So, the burden is on the contractor to submit current, accurate and complete information. It is not our mistake that he failed to do so. It is his failure to comply with the law and that is what our audits are all about in that area.

As far as overall effectiveness, DCAA hires probably 99 percent of our new auditors directly off the college campus. We hire graduate accountants with very high academic standards. Usually we average better than a 3.0 grade point average when we hire them.

We require these people to complete an intensive training course throughout their first 3 to 5 years with DCAA. We maintain our own training institute with a permanent staff. We put several thousand auditors a year through that institute, and a whole series of courses starting out with the initial 2-week indoctrination course right on up to sophisticated auditing techniques and methods.

So, I would answer, I believe, our auditors are well trained. At any one point in time, we do have a segment of the staff that is inexperienced, as we do right now, where we are building up rather rapidly; but, believe me, those people are being well supervised.

Mr. LANCASTER. You would call as a good example of your audit ability the special task force to audit contractor facility costs. Your statement says that it disclosed numerous internal control deficiencies and a general lack of good contractor management over the hiring and reimbursement of consultants.

Was not the task force the direct result of the ill-wind investigation? How long had these problems existed before the audit? Would they have ever been discovered in a routine way if it had not been for ill-wind?

Mr. REED. They absolutely would have been discovered in a routine way. This is an example of the problem of auditing 1983 costs in 1988. In many cases, these kinds—these consultant audits were done out of sequence.

We did the most current years for which we had contractor overhead claims because of the ill-wind investigation. You are absolutely right as far as what caused us to do that audit at that point in time rather than just letting it sit in the queue and wait until we got around to auditing 1987 costs in 1991 or 1992.

In these cases, we could not afford to wait. Where we know we have an exposure or a risk, we will reschedule audits out of the normal sequence. We will perform them and get right to those matters.

Our concern always is to have the contractors systems of internal controls be as well structured as possible to avoid problems rather than having to catch it after the fact.

Mr. **Lancaster**. But why should we accept the 5-year lag time? Sure, we might have discovered it 5 years from now, but why should we not be discovering it much sooner than that, if we did not have this tremendous backlog?

Mr. **Reed**. We should not accept it. We do not accept it. It is not satisfactory to us that we have this backlog, and we are doing everything we can to get the resources that we need to audit more currently. That has got to be our goal.

Mr. **Lancaster**. One last question. The statements of all witnesses before this committee on numerous occasions have supported the concept of self-governance of defense contractors. Yet, the example you give and the history of tremendous growth in savings by auditors leads me to question why we should trust defense contractors to govern themselves.

Would you address that concept?

Mr. **Reed**. I would certainly say that what we are doing is giving them qualified trust. Trust with verification. The whole self-governance concept—somebody famous said that, I think.

The whole self-governance concept in terms of how auditors view it is one of reliance on the work of others. Reliance on the work of others to an auditor means they must comply with some very rigid criteria before you can rely on it, including complete disclosure of all the analytical work, the work papers, the reports of the work that was done by the contractor, so that we can do our own independent confirmation of that work.

So, what it really does is reduce the amount of work we have to do, but it does not eliminate it. There has still got to be the independent verification of that work.

Mr. **Lancaster**. Do you think that this should be made mandatory, this self-governance, as opposed to merely suggesting it as has been the case thus far?

Mr. **Reed**. Well, I would like to point out that contractors already have the responsibility to manage their companies prudently, to comply with the laws and regulations. As far as I am concerned, it is already required.

What I am afraid of is, if we would mandate some program, for example, like the CRAG, all it would do is perhaps stimulate a very productive year for the consultants out there in publishing nice fancy brochures and putting on big puffy campaigns.

I am very interested in getting companies to do something substantive about this, and that is why I have been out talking to the audit committees of the nine largest defense companies. I, quite frankly, have run into some excellent members of those audit committees of the boards of directors who are really serious about getting their companies to be good defense contractors and good corporate citizens. They really are interested in doing something serious in this self-governance arena right now.

Mr. **Hutto**. Mr. Bilbray.

Mr. **Bilbray**. Yes. A couple of questions.

Previous witnesses have stated that in the moneys that they have saved, that this is returned within the Government themselves, within the DOD. In other words, if you find moneys that are saved with a particular audit, where does that money go at that point? Does it stay within that particular program within the DOD, or does it go into a new area of the DOD? None of it returns to the general fund, I take it?

Mr. REED. None of it returns to the general fund, with perhaps the exception of a fraud settlement. The administrative settlements generally are returned to the program and, quite frankly, in this regard, I think it is important to note that when the services are budgeted for these programs, they know that they are going to have a certain amount of audit support and they consider that audit support in establishing their budgets.

So, if we did not have these kinds of savings, I think in many cases, programs would be in trouble in living with the appropriate funds that have been provided for particular programs.

Mr. BILBRAY. OK. Now, the $163 billion that you have estimated as sitting out there unaudited, basically back to 1983, what percentage are you holding back right now and what are you doing with the money while you are holding it back? Is that being held in a trust fund, or is it being used within the defense budget? What is happening to that money?

Mr. REED. These are obligated funds on particular contracts. So, it very much is obligated to those contracts.

The percentage at each location varies, depending on our past audit experience. Each year, we make a recommendation to the contracting officer as to what the provisional billing rate ought to be for that particular year.

We look back at our prior audit experience, how much have we disallowed in the audits we have completed, what kind of conditions are going on in the company currently, and we make a recommendation specific to each contractor location.

Mr. BILBRAY. Is there any sort of average that you could give us?

Mr. REED. No, I really could not. It probably varies from a few percent in some places to 15 to 20 percent in others, and it is that kind of a——

Mr. BILBRAY. I understand. As I understand it, the money is allocated for that particular program or that particular contractor, but it is set aside in some sort of account drawing interest. What happens to the money?

Mr. REED. Well, these are obligated funds. They are authorized funds by the Department of Defense, and they are obligated on specific contracts.

The funds are in the hands of the Department of Defense to manage.

Mr. BILBRAY. But what I am getting at is if there is money from 1983 that is being held and say that amounts to $500 billion that is being held, and that has been going on in 1983, 1984, 1985, 1985, 1986, 1987, 1988, and it could amount now to billions of dollars that is being held. I just want to know, is that money—I was an attorney in my prior life. Let's say I have money that belongs to my clients. I set it in a trust fund. I cannot touch that money. Does the Department of Defense do the same thing, or are they using it as ongoing money in 1983, 1984, 1985? Have they spent that money and then, for some reason, we find that the amount of money that is to be returned to the contractor is a lot more than the percentage of hold back that we anticipated. Are we going to run into problems even if the fact is it suddenly turns out that we get more auditors and we do this auditing work and all of a sudden, the Department of Defense has to come up with $7 billion to repay the contractors. Is that money set aside?

Mr. Reed. I see. This is really a comptroller kind of question, but I think I can give you a general answer, and I hope I am reasonably accurate.

My understanding is from a standpoint of the way the obligation process works. We could never end up with a situation where they have spent the money for something else when these audits are completed, and they do not have the money to pay the contractor.

Once the money is obligated, it must remain on that contract at the level obligated until the contract is closed. Once we estimate the final price, only then can they de-obligate the money and make it available for other purposes.

Mr. Bilbray. I understand that. I understand what you are saying, but, again, you are not telling me, it is obligated. It is held in some secured fund, yes or no?

Mr. Reed. It is held in the funds that the Comptroller manages for the Department of Defense, and I am sorry I cannot give you a more specific answer because it is really not my area as to how the Department does their funds management.

Mr. Cofer. I think, Mr. Bilbray, the issue to be raised is a valid one, but we are really not talking about money per se like in private industry. There is an obligation incurred.

The basic money would be in the Treasury. The Department of Defense does not have money itself. It has the ability to withdraw. It would be my understanding that these funds are on deposit in the U.S. Treasury.

Mr. Bilbray. Well, if you were doing an audit and you would have this as an account payable, somewhere in some department, Department of Treasury, Department of Defense, but it could amount to many billions of dollars that has been obligated 1983 through 1988 and could be a potential obligation of the Government that we are not allowing for at the present time.

Mr. Cofer. I would agree.

Mr. Hutto. Thank you, Mr. Bilbray.

One question from the staff here.

Mr. Cofer. One quick question. I would just like to follow up on Mr. Kasich's question.

Mr. Reed, you mentioned that part of your agency role is to be pro-active with regard to audit and financial policy in the Department of Defense.

You are very well aware that we held many, many hearings with regard to MRP. This committee supported the audit work that your auditors have done, and we have had some very good testimony.

I think the problems that were identified were significant, such as the figures that you have in your testimony today, $760 million withheld.

What is your agency's position with regard to certification of MRP? I am not talking about Derek, but what is your position?

Mr. **Reed**. Well, our position is the Department of Defense's position, and as we had testified previously, we felt that we had a way of attacking this problem through the normal administrative and audit process without getting into a certification kind of situation.

We felt that certification would have been somewhat premature because, quite frankly, we were having trouble ourselves defining exactly what kinds of criteria these systems should meet. We were really quite hard-pressed to say what the certification would say and how any contractor could reasonably certify considering the state that we found the systems in at that point in time.

We felt we had sufficient support from the acquisition community and we had gotten a good response from the industry to really work together with the Department to correct these systems. We both agreed the systems were of mutual advantage once we had them working properly; there were some great advantages to these systems.

So, we wanted to try and make it an effort that we could do in a cooperative way as opposed to hitting them with a hammer.

Mr. **Hutto**. Is it possible to set some standards for the material requirements plan?

Mr. **Reed**. We have now done that. We have set standards——

Mr. **Hutto**. Should that not be something to be done?

Mr. **Reed**. Yes, yes, sir, it should be done, and it has been done. That was one of the——

Mr. **Hutto**. Oh, it has been done?

Mr. **Reed**. Yes, that has been done. The acquisition community, DCAA, and the industry jointly developed ten key elements, ten key standards, that these systems must meet.

Mr. **Hutto**. OK. I misunderstood you. I thought you said you did not know what standards——

Mr. **Reed**. At the point in time that we talked about the certification initially, we had not done so. We had not developed those standards.

Mr. **Hutto**. Now that you have this in place, you will have certification—I mean, will that be something that you will—you will not try to circumvent—that is the wrong word, but, I mean, you will not be as lenient in the certification area?

Mr. **Reed**. Well, right now, contractors have been told and have agreed that they have a responsibility to perform a demonstration of compliance with these standards, as we are using the term. The ten key elements.

Failure to do so is what is resulting in these suspensions that are mentioned in my testimony. So, in terms of what will be the effect with certification or without certification, really I think we get to the same point.

For example, say a contractor makes a demonstration to us, and he only meets eight of the ten elements. He gives us an action plan on how to correct the other two elements, and he withholds a certain amount of money from his billings until he gets it corrected. That is exactly what we would get with certification. I believe, where a contractor would say I just cannot certify those last two areas yet, you are going to have to hold some money back.

So, we are getting to the same point. As to how we would have gotten there quickest; perhaps that is what we are talking about more than what would get the job done.

Mr. **Hutto**. Mr. Reed, we will have more questions that we would ask you to respond to in writing, and we thank you very much for your testimony and thank you for being with us this morning.

Mr. **Reed**. Thank you.

[The following questions were submitted to be answered for the record:]

QUESTION 1

YOU MENTION THAT CONTRACTING OFFICERS SUSTAINED ABOUT 56 PERCENT OF YOUR RECOMMENDATIONS WITH REGARD TO FORWARD PRICING, ABOUT 67 PERCENT OF YOUR RECOMMENDATIONS CONCERNING INCURRED COST, AND 48 PERCENT OF YOUR RECOMMENDATIONS RELATED TO POST AWARD AUDITS.

IF YOUR ACCOUNTANTS HAVE STUDIED, ANALYZED, AND AUDITED THE RECORDS, ETC., WHY THEN ARE NOT THE SUSTAINED LEVELS HIGHER?

MR. REED

THE SUSTENTION OF OUR AUDIT RECOMMENDATIONS IS VERY IMPORTANT TO US AND WE ARE CONTINUOUSLY LOOKING FOR WAYS TO IMPROVE UPON THE SUSTENTION PERCENTAGE. HOWEVER, WE PERFORM AN ADVISORY SERVICE TO CONTRACTING OFFICERS. OUR AUDIT REPORTS ARE USED BY CONTRACTING OFFICERS AS PART OF THE NEGOTIATION PROCESS.

DURING FORWARD PRICING AND POST AWARD AUDIT NEGOTIATIONS, ADDITIONAL INFORMATION OR MITIGATING CIRCUMSTANCES ARE FREQUENTLY PRESENTED TO THE CONTRACTING OFFICER FOR CONSIDERATION. THIS INFORMATION MAY JUSTIFY THE NEGOTIATION OF AMOUNTS IN EXCESS OF OUR RECOMMENDATIONS.

AS REGARDS INCURRED COST RECOMMENDATIONS, WHICH ARE BASED UPON AUDITS OF ACCOUNTING RECORDS, THE COST PRINCIPLES WHICH ARE THE BASIS FOR MANY OF OUR RECOMMENDATIONS MAY ALLOW FOR DIFFERING INTERPRETATIONS AS TO THE ALLOWABILITY OF COSTS. ACCOUNTING MISTAKES AND ITEMS WHICH ARE SPECIFICALLY UNALLOWABLE IN ACCORDANCE WITH ACQUISITION REGULATIONS AND CONTRACT TERMS ARE SUSTAINED 100 PERCENT. HOWEVER, ISSUES REGARDING ALLOCABILITY AND REASONABLENESS REQUIRE SOME DEGREES OF JUDGEMENT. THEREFORE, CONTRACTING OFFICERS MUST UTILIZE ALL THE INFORMATION PRESENTED TO THEM TO MAKE THEIR DETERMINATIONS.

QUESTION 2

YOU MENTION THAT COST AVOIDANCES OR SAVINGS EXCEED YOUR AGENCY'S OPERATING BUDGET BY $30 TO $1 IN FISCAL YEAR 1988.

EXPLAIN THIS, AND HOW ARE THE MEASUREMENTS MADE?

MR. REED

AS PRESENTED ON PAGE 3 OF MY STATEMENT FOR THE RECORD, TYPICALLY COST AVOIDANCES OR SAVINGS FROM AUDIT RECOMMENDATIONS HAVE EXCEEDED THE AGENCY'S OPERATING BUDGET BY BETTER THAN $30 FOR EACH $1 OF OUR BUDGET.

WE TRACK THE DISPOSITION OF OUR AUDIT RECOMMENDATIONS AND COMPUTE THE COST IMPACT ON GOVERNMENT CONTRACTS. ONLY SUSTAINED AMOUNTS ON NEWLY AWARDED OR EXISTING CONTRACTS ARE INCLUDED. NO SAVINGS ARE INCLUDED FOR NONSUSTENTIONS, UNSUCCESSFUL PROPOSALS OR REDUCTIONS DUE TO OTHER GOVERNMENT TEAM MEMBERS.

THE DIVISION OF OUR REPORTED SAVINGS AMOUNT BY OUR OPERATING COSTS PRODUCE THE ESTIMATED $30 RETURN ON $1 OF OUR OPERATING COSTS. FISCAL YEAR 1988 SAVING OF $9.5 BILLION DIVIDED BY $276.3 MILLION OPERATION COST RESULT IN THE $34 RETURN FOR 1988 ($9.5 BIL / $276.3 MIL EQUAL $34).

QUESTION 3

LAST YEAR THIS COMMITTEE AUTHORIZED THE HIRING OF MORE THAN 1,000 AUDITORS.

WERE YOU GIVEN THE FUNDS TO HIRE THESE PEOPLE, AND WHAT IS THE OVERALL FUNDING STATUS THIS YEAR?

MR. REED

A PROVISION IN THE FY 1989 DOD AUTHORIZATION ACT INCREASED DCAA'S END STRENGTH STAFFING FROM THE PRESIDENT'S AMENDED BUDGET LEVEL OF 6,439 TO 7,007. THIS RESTORED DCAA'S ASSIGNED STAFF TO THE LEVEL CONTAINED IN THE ORIGINAL PRESIDENT'S BUDGET FOR THE STATED PURPOSE OF ENHANCING THE CAPABILITY OF THE DEPARTMENT OF DEFENSE TO COMBAT FRAUD, WASTE AND ABUSE AND TO ASSIST IN RESTORING PUBLIC CONFIDENCE IN THE DEFENSE ACQUISITION PROCESS.

IN ORDER TO EFFICIENTLY ASSIMILATE THIS ADDITIONAL STAFFING, WE REQUESTED AND THE DEPARTMENT PROVIDED HALF YEAR FUNDING FOR FY 1989. WE ARE ACTIVELY RECRUITING AND TRAINING THE NEW STAFF CURRENTLY WITH THE BULK OF THE HIRING TO TAKE PLACE OVER THE NEXT FEW MONTHS. OUR FY 1990/1991 BUDGET REQUEST PROVIDES FOR THE CONTINUED FUNDING OF THE FY 1989

AUTHORIZED LEVEL OF 7,007. OUR REQUEST IS INCLUDED UNDER THE APPROPRIATION "OPERATION AND MAINTENANCE (O&M), DEFENSE AGENCIES, FISCAL YEAR 1990/1991 BIENNIAL BUDGET."

QUESTION 4

WHAT IS THE DEFENSE CONTRACT AUDIT INSTITUTE?

WHAT IS THE TOTAL COST OF OPERATING THIS INSTITUTE, HOW MANY AUDITORS ARE TRAINED, AND WHY MUST IT BE OPERATED AS PART OF DCAA AND NOT CONTRACTED OUT?

MR. REED

THE DEFENSE CONTRACT AUDIT INSTITUTE (DCAI) LOCATED ON THE SOUTH CAMPUS OF MEMPHIS STATE UNIVERSITY IN MEMPHIS, TENNESSEE IS A SCHOOL THAT HAS BEEN ESTABLISHED BY DCAA TO TRAIN ITS AUDITORS. THE PERSONNAL AT DCAI ARE PERMANENT EMPLOYEES (CONSISTING OF AUDITORS AND ADMINISTRATIVE EMPLOYEES) OF DCAA. DCAI IS TASKED TO MAINTAIN OUR TRAINING BUDGET; CONDUCT RESEARCH, DEVELOP AND CONDUCT FORMAL TRAINING; RESEARCH AND DEVELOP SELF-STUDY MATERIAL; MAINTAIN RELATIONSHIPS WITH BUSINESS, ACADEMIA AND PROFESSIONAL ACCOUNTING ORGANIZATIONS; AND MAINTAIN OUR MANAGEMENT DEVELOPMENT PROGRAM.

OUR TRAINING BUDGET FOR FY 1989, WHICH INCLUDES DCAI, IS $4.3 MILLION. THIS AMOUNT INCLUDES TRAVEL TO AND FROM DCAI; DCAI STAFF SALARIES; TRAINING SUPPLIES AND PURCHASED TRAINING SERVICES, COURSES AND SEMINARS.

THE NUMBER OF AUDITORS TRAINED BY DCAI FOR THE LAST TWO FISCAL YEARS AND OUR PROJECTION FOR FISCAL YEAR 1989 IS AS FOLLOWS

FY 1987	4,878 (ACTUAL)
FY 1988	5,100 (ACTUAL)
FY 1989	6,280 (PROJECTED)

PURCHASED TRAINING SERVICES SUCH AS CPA REVIEW COURSES, EXECUTIVE DEVELOPMENT COURSES, OFFICE OF PERSONNEL MANAGEMENT SPONSORED COURSES, MICROCOMPUTER COURSES AND MANY OTHER TRAINING SERVICES WHICH ARE READILY

AVAILABLE OUTSIDE DCAA AND THE FEDERAL GOVERNMENT ARE INCLUDED IN OUR TRAINING BUDGET. HOWEVER, THE SERVICE PERFORMED BY DCAI CANNOT BE CONTRACTED OUT DUE TO THE UNIQUE NATURE OF CONTRACT AUDITING. DCAA HAS BY FAR THE LARGEST NUMBER OF AUDITORS PERFORMING CONTRACT AUDITS IN THE FEDERAL GOVERNMENT. THE LARGE NUMBER OF CONTRACT AUDITORS EMPLOYED BY DCAA MAKES INTERNAL TRAINING PRACTICAL AND COST EFFECTIVE. INTERNAL TRAINING PROVIDES DCAA THE ABILITY TO QUICKLY ADAPT TO THE POLICY AND OPERATIONAL CHANGES ASSOCIATED WITH ACQUISITION ISSUES.

QUESTION 5

ON PAGE 4 OF YOUR STATEMENT YOU STATE THAT 38 PERCENT OF YOUR AUDIT EFFORT WAS SPENT ON EVALUATING 27,000 PROPOSALS VALUED AT $233 BILLION. DCAA TOOK EXCEPTING TO $23 BILLION. THIS IS 1 PERCENT. THE CONTRACTING OFFICERS RULE AGAINST YOU 44 PERCENT OF THE TIME.

HOW IS IT AND WHY DOES THIS AREA RECEIVE SUCH A HIGH PRIORITY OF YOUR TOTAL STAFFING? WHAT FACTORS INFLUENCE THIS TYPE OF DECISION?

MR. REED

THE $23 BILLION IN EXCEPTIONS IS ACTUALLY 10 PERCENT OF THE $233 BILLION PROPOSAL VALUE. MY RESPONSE TO QUESTION 1 ADDRESSED THE SUSTENTION ISSUE.

THE EVALUATION OF PRICE PROPOSALS IS OUR NUMBER ONE PRIORITY BECAUSE IT IS CRITICAL TO THE ON-GOING AWARD OF CONTRACTS. IN ACCORDANCE WITH FEDERAL ACQUISITION REGULATIONS, WHEN COST OR PRICING DATA ARE REQUIRED, CONTRACTING OFFICERS MUST REQUEST AN AUDIT REVIEW BEFORE NEGOTIATING ANY CONTRACT OR MODIFICATION IN EXCESS OF CERTAIN LARGE DOLLAR AMOUNTS. THE DCAA AUDIT REPORT IS ESSENTIAL TO (i) PROVIDE THE CONTRACTING OFFICER WITH A RECOMMENDATION ON THE ACCURACY AND REASONABLENESS OF THE CONTRACTORS PRICE PROPOSAL, (ii) PROVIDE INFORMATION NECESSARY TO ESTABLISH THE GOVERNMENT NEGOTIATION POSITION, AND (iii) ENABLE THE GOVERNMENT NEGOTIATING TEAM (INCLUDING THE AUDITOR WHERE APPROPRIATE) TO ARRIVE AT A FAIR AND REASONABLE CONTRACT PRICE.

QUESTION 6

YOUR BUDGET JUSTIFICATION MATERIAL SUBMITTED TO THE COMMITTEE MENTIONS JUNIOR AND JOURNEYMAN LEVEL AUDITORS.

WHAT IS THE TURNOVER RATE AMONG YOUR MORE SENIOR LEVEL AUDITORS? IS THIS A PROBLEM, AND DO THEY LEAVE AND JOIN INDUSTRY BECAUSE OF PAY?

MR. REED

DCAA'S OVERALL TURNOVER RATE HAS INCREASED FROM ALMOST 8 PERCENT IN FISCAL YEAR 1982 TO OVER 13 PERCENT IN FISCAL YEAR 1988. WHILE THE OVERALL RATE IS STILL WITHIN TOLERABLE LIMITS, THE INCREASING TREND IS DISTURBING. A MORE SERIOUS PROBLEM BECOMES EVIDENT WHEN VIEWING TURNOVER BY GEOGRAPHIC AREAS WHERE THE IMPACT OF LOW FEDERAL SALARIES HAS RESULTED IN BOTH RECRUITMENT AND TURNOVER PROBLEMS. DCAA, AS THE PRINCIPAL EMPLOYER OF AUDITORS IN THE FEDERAL SECTOR, RECENTLY LED AN EFFORT WHICH RESULTED IN APPROVAL BY THE OFFICE OF PERSONNEL MANAGEMENT OF SPECIAL SALARY RATES FOR ACCOUNTANTS AND AUDITORS, GRADES GS-5 THROUGH GS-9 IN EIGHT HIGH-COST AREAS. THESE SPECIAL RATES REPRESENTED INCREASES OF 10 TO 20 PERCENT DEPENDING ON GS GRADE. IN ADDITION TO THE ENTRY-LEVEL GRADES, WE BELIEVE THAT AUDITORS AT THE GS-11 AND GS-12 JOURNEYMAN LEVEL MANY ALSO BE EXPERIENCING A SIMILAR PAY GAP IN CERTAIN LOCATIONS. WE ARE IN THE PROCESS OF COLLECTING DATA TO DETERMINE WHETHER A REQUEST FOR SPECIAL RATES FOR THESE GRADES CAN BE SUPPORTED.

ATTRITION AT THE MANAGEMENT LEVEL IS ALSO BECOMING A CONCERN IN CERTAIN GEOGRAPHIC AREAS. IN OUR REGIONAL OFFICE LOCATED IN LOS ANGELES, WE HAVE LOST 5 OF 8 GM-15 MANAGERS INCLUDING THE DEPUTY REGIONAL DIRECTOR IN THE LAST 8 MONTHS. IN OUR REGIONAL OFFICE LOCATED IN SAN FRANCISCO, 4 OF 8 GM-15 MANAGERS HAVE LEFT DCAA IN THE LAST 4 MONTHS. SEVERAL OF THESE FORMER GM-15 MANAGERS LEFT FOR HIGHER PAYING JOBS IN INDUSTRY, WHILE MANY OTHERS RETIRED WITH THE INTENTION OF ACQUIRING POSITONS IN INDUSTRY.

QUESTION 7

WHAT IS THE STATUS OF YOUR BACKLOG? YOU MENTION THE FIGURE OF $163 BILLION FOR FISCAL YEAR 1988. THIS BACKLOG GROWS IN FISCAL YEAR 1989 TO $170 BILLION.

DESCRIBE THE BACKLOG, AGE THE BACKLOG IN TERMS OF ACCOUNTS, AND EXPLAIN WHAT THIS MEANS TO BOTH THE FEDERAL GOVERNMENT AND THE PRIVATE SECTOR.

WHAT WOULD IT TAKE TO REDUCE THIS BACKLOG SIGNIFICANTLY IN 5 TO 10 YEARS, AND IS IT POSSIBLE.

MR. REED

IN THE LAST DECADE, THE SUBSTANTIAL INCREASES IN THE DOD BUDGET HAVE CAUSED THE DCAA WORKLOAD TO INCREASE PROPORTIONALLY. HOWEVER, OUR STAFFING AND BUDGET LEVELS HAVE NOT KEEP PACE. AS A RESULT, A $163 BILLION BACKLOG OF INCURRED COST AUDITS DEVELOPED. THE BACKLOG REPRESENTS THE DOLLARS ASSOCIATED WITH UNAUDITED CONTRACTOR CLAIMS FOR FINAL SETTLEMENT ON FLEXIBLY-PRICED CONTRACTS. THE AGE OF THE BACKLOG IN TERMS OF FISCAL YEARS IS AS FOLLOWS:

YEAR	AMOUNT (000)
1980 & BEFORE	$ 135,683
1981	553,760
1982	924,110
1983	2,713,319
1984	9,670,178
1985	26,947,100
1986	54,412,392
1987	59,951,044
1988	7,775,786
TOTAL	$163,083,372

THE BACKLOG INCREASES FINANCIAL RISK TO THE GOVERNMENT IN BOTH NEW CONTRACT AWARDS AND PAYMENTS ON EXISTING CONTRACTS, IMPEDES TIMELY ADMINISTRATION AND SETTLEMENT OF CONTRACTS AND DELAYS FINAL PAYMENTS TO CONTRACTORS. A MORE SPECIFIC EXPLANATION OF THESE CONSEQUENCES IS INCLUDED IN MY STATEMENT.

WE ARE PROJECTING THAT THE BACKLOG WILL GROW TO $170 BILLION BY THE END OF THIS YEAR. DCAA IS CURRENTLY HIRING AUDITORS TO REACH OUR FY 1989 AUTHORIZED END STRENGTH OF 7,007. STABILITY IN BOTH THE AUTHORIZED STAFF AND FUNDING AT THIS LEVEL WILL ALLOW US TO REDUCE THE BACKLOGGED WORK TO

THE NORMAL AUDIT LAG TIME BY THE END OF FY 1994, ASSUMING OTHER WORK LOAD PROJECTIONS DID NOT VARY SIGNIFICANTLY.

QUESTION 8

ON PAGE 16 YOU STATE THAT YOU ENDED FISCAL YEAR 1988 WITH 300 FEWER AUDITORS THAN IN FISCAL YEAR 1987.

WHY WAS THIS?

MR. REED

IN ACCORDANCE WITH THE REQUIREMENTS OF THE GOLDWATER NICHOLS DOD REORGANIZATION ACT, DCAA HAD TO REDUCE ITS AUTHORIZED STAFF FROM A LEVEL OF 6,089 TO AN END STRENGTH OF 5,761 BY 30 SEPTEMBER 1988. THIS RESULTED IN A LOSS OF APPROXIMATELY 300 AUDITORS PLUS A SMALL NUMBER OF SUPPORT PERSONNEL.

QUESTION 9

YOU EXPLAIN THE SUNDSTRAND CORPORATION AUDIT AND INVESTIGATION WHICH RESULTED IN FINES AND PENALTIES OF $115 MILLION.

TELL THE SUBCOMMITTEE ABOUT THE CASE. WHAT WAS INVOLVED? HOW MANY AUDITORS WERE USED, ETC.?

MR. REED

IN 1984 AND 1985, DCAA'S GREAT LAKES BRANCH OFFICE IN CHICAGO, ILLINOIS WAS PERFORMING ROUTINE AUDITS OF SUNDSTRAND'S DESIGN AND DEVELOPMENT CONTRACTS AND INVENTORY SCRAP PRACTICES. IN ONE AUDIT, THE AUDITORS FOUND THAT COST OVERRUNS ON DESIGN AND DEVELOPMENT CONTRACTS WERE BEING INCLUDED IN CONTRACT PRICING AND BILLING RATES PAID BY THE GOVERNMENT. THE MISCHARGED COSTS INCREASED GOVERNMENT CONTRACT PRICES BY ALMOST $17 MILLION ANNUALLY. IN ANOTHER AUDIT, THE AUDITORS FOUND THAT THE CONTRACTOR SOLD AT A LOSS VALUABLE EXCESS INVENTORY TO A CONTRACTOR-CONTROLLED INVENTORY WAREHOUSING COMPANY AND SUBSEQUENTLY USED THIS "SOLD" INVENTORY IN THE PERFORMANCE OF OTHER GOVERNMENT CONTRACTS. SINCE THE LOSS IN VALUE OF THE DISPOSED INVENTORY WAS BILLED TO THE GOVERNMENT, THE GOVERNMENT PAID TWICE FOR THE SAME PART: ONCE AS AN

INDIRECT SCRAP LOSS WRITEOFF AND AGAIN AS A DIRECT COST DURING PERFORMANCE OF A CONTRACT. THIS PRACTICE INCREASED THE COST OF PERFORMING GOVERNMENT CONTRACTS BY MORE THAN $2.5 MILLION ANNUALLY. THESE EXTENSIVE REVIEWS INDICATED THAT THE IDENTIFIED PRACTICES HAD BEEN OCCURRING OVER MANY YEARS AND APPEARED DELIBERATELY DESIGNED TO IMPROPERLY INCREASE GOVERNMENT CONTRACT COST. CONSEQUENTLY, DCAA REFERRED THE MATTER FOR INVESTIGATION.

A JOINT INVESTIGATION WAS CONDUCTED BY THE FEDERAL BUREAU OF INVESTIGATION, THE DEFENSE CRIMINAL INVESTIGATION SERVICE, AND THE INTERNAL REVENUE SERVICE. THE CONTRACTOR SUBSEQUENTLY PLEADED GUILTY TO 4 COUNTS OF CRIMINAL CONSPIRACY FOR DEFRAUDING THE GOVERNMENT AND AGREED TO PAY RESTITUTION, FINES, PENALTIES, AND NEGOTIATED CONTRACT REDUCTIONS TO THE GOVERNMENT IN THE AMOUNT OF $115 MILLION. THE COMPANY WAS ALSO TEMPORARILY SUSPENDED FROM RECEIVING NEW GOVERNMENT CONTRACTS. AN ADDITIONAL $71 MILLION WAS RECOVERED TO SETTLE CIVIL CHARGES AND OTHER AUDIT EXCEPTIONS INVOLVING SUNDSTRAND'S ACCOUNTING AND PRICING PRACTICES. THREE OF SUNDSTRAND'S FORMER EXECUTIVES HAVE BEEN INDICTED BY A GRAND JURY.

THE TWO LEAD AUDITORS INVOLVED IN THE CASE SPENT A TOTAL OF 6,000 AUDIT HOURS. HOWEVER, ABOUT 17 OTHER DCAA AUDITORS, SUPERVISORS, AND MANAGERS ASSISTED AT VARIOUS TIMES DURING THE EXTENSIVE REVIEW, SPENDING AN ADDITIONAL 6,500 AUDIT HOURS IN RESOLVING THE CASE. AT CURRENT DCAA BILLING RATES, THIS WOULD EQUATE TO APPROXIMATELY $563,000 OF AUDIT-RELATED INVESTIGATIVE COSTS. WE HAVE NO INFORMATION ON THE TIME SPENT BY OTHER GOVERNMENT AGENCIES, BUT WE HAVE NO DOUBT THAT THE NET RESULT WAS EXTREMELY COST EFFECTIVE.

QUESTION 10

SEVERAL YEARS AGO THIS SUBCOMMITTEE AND CONGRESS GRANTED YOUR AGENCY SUBPOENA POWERS. THERE WAS SOME CONCERN THAT THIS POWER WOULD BE ABUSED.

HOW MANY SUBPOENAS HAVE YOU ISSUED IN THE LAST YEAR, AND WHAT WERE THE CONDITIONS?

HAS HAVING THIS AUTHORITY MADE A DIFFERENCE?

MR. REED

NO SUBPOENAS HAVE BEEN ISSUED IN THE LAST YEAR.

DURING CALENDAR YEARS 1986 AND 1987 SIX SUBPOENAS WERE ISSUED AND SEVEN CASES OCCURRED WHERE ACCESS WAS PROVIDED IMMEDIATELY PRIOR TO THE ISSUANCE OF A SUBPOENA. THIS EARLY AND VERY CAREFUL USE OF THE SUBPOENA AUTHORITY HAS BEEN VERY USEFUL. IT'S CONTINUING VALUE AS A DETERRENT IS EVIDENT IN OUR MOST RECENT EXPERIENCE AS ACCESS DISPUTES ARE BEING RESOLVED AT AN EARLY STAGE.

QUESTION 11

YOUR STATEMENT MENTIONS ACCESS TO CONTRACTOR RECORDS PROBLEMS.

WHAT IS THE PROBLEM, WHAT HAS BROUGHT IT ABOUT, AND WHAT ACTION NEEDS TO BE TAKEN BY THIS COMMITTEE?

MR. REED

WE HAVE ENCOUNTERED RECURRING DISPUTES OVER ACCESS TO CERTAIN TYPES OF RECORDS NECESSARY TO COMPLY WITH THE GOVERNMENT AUDITING STANDARDS PUBLISHED BY THE COMPTROLLER GENERAL. WHILE THESE DISPUTES ARE BEING RESOLVED SHORT OF A SUBPOENA IN NEARLY ALL CASES, THE CONTINUED DEBATES AND ARGUMENTS WASTE BOTH THE CONTRACTORS AND OUR RESOURCES AS WELL AS IMPEDING THE TIMELINESS OF OUR AUDITS. THIS PROBLEM HAS DEVELOPED BECAUSE THE AUDIT-NEGOTIATION CLAUSE IN THE FEDERAL ACQUISITION REGULATIONS NEEDS STRENGTHENING.

WE HAVE PROPOSED APPROPRIATE CHANGES TO THE DOD DEFENSE ACQUISITION REGULATORY COUNCIL WHICH STILL HAS THE MATTER UNDER REVIEW. IN ADDITION THE DOD IG IS CURRENTLY CONDUCTING A REVIEW TO DETERMINE THE EXTENT AND IMPACT OF ACCESS TO RECORDS PROBLEMS. IN THE MOST RECENT SEMIANNUAL REPORT TO CONGRESS THE IG REPORTED:

> ...PRELIMINARY FINDINGS INDICATE THE NEED FOR LEGISLATIVE ACTIONS TO UPDATE AND CLARIFY EXISTING CONTRACTUAL CLAUSES ON ACCESS TO CONTRACTORS' RECORDS.

QUESTION 12

YOUR AGENCY'S AUTHORIZED END STRENGTH FOR FISCAL YEAR 1989 IS 7,007 POSITIONS.

HOW MANY OF THESE POSITIONS ARE PROFESSIONAL IN NATURE AS OPPOSED TO CLERICAL OR SUPPORT?

MR. REED

OF THE 7,007 TOTAL POSITIONS, 5,961 ARE DESIGNATED AS AUDITORS AND 1,046 ARE SUPPORT PERSONNEL.

QUESTION 13

TWO MAJOR DEFENSE CONTRACTORS HAVE REFUSED TO COMPLY WITH TWO DCAA SUBPOENAS FOR CONTRACTOR RECORDS.

WHAT HAS BEEN THE IMPACT OF THESE REFUSALS AND THE COURT'S RULING?

HAS THE DCAA DOCUMENTED SAVINGS AND BENEFITS WHICH WOULD RESULT TO THE GOVERNMENT IF THESE RECORDS WERE AVAILABLE?

MR. REED

ONLY ONE CONTRACTOR FAILED TO COMPLY WITH OUR SUBPOENA. NEWPORT NEWS SHIPBUILDING AND DRY DOCK CO. CONTESTED TWO SEPARATE DCAA SUBPOENAS ISSUED TO OBTAIN:

- O SUBPOENA # 1 -- INTERNAL AUDIT MATERIALS; AND
- O SUBPOENA # 2 -- TRAIL BALANCE, ADJUSTING JOURNAL ENTRIES, SEGMENT FINANCIAL WORKPAPERS, CONSOLIDATING ENTRIES, FEDERAL INCOME TAX RETURNS

SUBPOENAS 1 & 2 HAVE BEEN LITIGATED IN BOTH THE DISTRICT AND APPEALS COURT. THE FOLLOWING ARE THE CITATIONS:

SUBPOENA # 1 (NEWPORT NEWS I)

Newport News Shipbuilding and Dry Dock Co. v. William H. Reed, 655 F. Supp. 1408 (E.D. Va. 1987).

United States v. Newport News Shipbuilding and Dry Dock Co., 837 F.2nd 162 (4th Cir.1988)

SUBPOENA # 2 (NEWPORT NEWS II)

Newport News Shipbuilding and Dry Dock Co., No. 87-29-NN (E.D. Va. Dec. 23, 1987).

United States v. Newport News Shipbuilding and Dry Dock Co., 862 F.2nd 464 (4th Cir.1988).

WE LOST BOTH THE DISTRICT AND APPEALS COURT DECISIONS REGARDING INTERNAL AUDIT INFORMATION (NEWPORT NEWS I). THESE DECISIONS HAVE LED OTHER CONTRACTORS TO RESIST DCAA ACCESS TO INTERNAL AUDIT INFORMATION, ALTHOUGH NONE HAVE CARRIED THE DENIAL TO THE SUBPOENA STAGE AS YET. ACCESS TO THIS INFORMATION IS VALUABLE IN EVALUATING THE ADEQUACY AND EFFECTIVENESS OF CONTRACTOR INTERNAL CONTROL SYSTEMS AND AVOIDING DUPLICATE AND UNNECESSARY AUDIT WORK. RELIANCE ON THE INTERNAL AUDITORS WORK IS A KEY FACTOR IN REDUCING GOVERNMENT OVERSIGHT WHERE CONTRACTOR SELF GOVERNANCE PROGRAMS ARE IMPLEMENTED.

IN NEWPORT NEWS II WE LOST IN THE DISTRICT COURT BUT WON ON APPEAL. WHILE IT IS TOO EARLY TO ASSESS THE FULL IMPACT OF THE APPEALS COURT DECISION, I AM HOPEFUL THAT IT WILL HELP ENSURE WE HAVE ACCESS TO RECORDS NECESSARY TO CARRY OUT OUR MISSION RESPONSIBILITIES.

PAST AUDIT EXPERIENCE HAS RESULTED IN DOCUMENTED SAVINGS FROM HAVING ACCESS TO THE TYPES OF RECORDS SOUGHT IN BOTH SUBPOENAS.

QUESTION 14

HOW MANY AUDITS DO YOU DO IN A YEAR, AND HOW MANY REPORTS DO YOU ISSUE?

MR. REED

DURING FY 1988, WE CONDUCTED APPROXIMATELY 72,000 AUDITS AND ISSUED ABOUT 60,000 REPORTS. NOT EVERY AUDIT ASSIGNMENT RESULTS IN A FORMAL WRITTEN REPORT. INDIVIDUAL REVIEWS MAY RESULT IN NO FINDINGS OR MAY RESULT IN FINDINGS WHICH ARE CONSOLIDATED WITH OTHER ASSIGNMENTS INTO A SINGLE REPORT.

QUESTIONS 15, 16

AS YOU KNOW THIS SUBCOMMITTEE HAS A LONGSTANDING AND CONTINUING INTEREST IN MATERIAL REQUIREMENTS PLANNING SYSTEMS (MRP). YOU ADDRESS THIS ISSUE ON PAGE EIGHT OF YOUR FORMAL STATEMENT BUT I AM UNABLE TO ASSESS THE CURRENT STATUS FROM THE INFORMATION PROVIDED.

IF I RECALL INITIALLY THERE WERE 196 CONTRACTOR LOCATIONS THAT WERE TO PERFORM A SELF-ASSESSMENT USING AS A BASIS THE TEN COMMON DEFICIENCIES DEVELOPED BY YOUR OFFICE. IT IS MY UNDERSTANDING THAT AS OF SEPTEMBER 1988, THERE WERE 134 CONTRACTOR LOCATIONS WITH DEFICIENCIES OR POTENTIAL DEFICIENCIES CONSIDERED MAJOR AND COULD HAVE A COST IMPACT.

WHAT IS THE MOST CURRENT NUMBER YOU HAVE IN THAT CATEGORY?

MR. REED

THE 134 REPRESENTS THE TOTAL NUMBER OF CONTRACTOR LOCATIONS WHERE DEFICIENCIES OR POTENTIAL DEFICIENCIES HAVE BEEN NOTED, NOT JUST THOSE LOCATIONS WHERE THE DEFICIENCIES WERE CONSIDERED MAJOR AND COULD HAVE A COST IMPACT. AS OF 31 DECEMBER 1988 THERE WERE 75 LOCATIONS IN THE MAJOR DEFICIENCY CATEGORY.

QUESTION 17

YOU STATE THAT YOUR RECOMMENDED AND ACTUAL PROGRESS PAYMENT REDUCTIONS EXCEEDED $760 MILLION AS OF LAST DECEMBER.

OF THE $760 MILLION HOW MUCH HAS BEEN WITHHELD, AND HOW MANY CONTRACTOR LOCATIONS ARE RELATED TO EACH?

MR. REED

RECOMMENDATIONS FOR WITHHOLDING AMOUNT TO $407 MILLION, INVOLVING 31 LOCATIONS. AMOUNTS BEING WITHHELD TOTALLED $353 MILLION, ALSO INVOLVING 31 LOCATIONS. APPROXIMATELY $257 OF THE $407 MILLION PERTAIN TO FOUR LOCATIONS WHERE SOME AMOUNT OF COSTS IS CURRENTLY BEING WITHHELD.

QUESTION 18

IN FEBRUARY 1988, MRS. ELEANOR SPECTOR, THE DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR PROCUREMENT, DIRECTED THAT WHEN CONTRACTORS BELIEVED THEIR MRP SYSTEMS MEET THE 10 ELEMENTS AGREED TO BY INDUSTRY AND DEFENSE OFFICIALS, THE CONTRACTORS WERE TO DEMONSTRATE THE DEGREE TO WHICH THEIR MRP SYSTEMS COMPLIED WITH THESE STANDARDS.

IT IS MY UNDERSTANDING THAT MANY CONTRACTORS HAVE NOT CONDUCTED THESE DEMONSTRATIONS. SOME HAVE CONDUCTED UNACCEPTABLE DEMONSTRATIONS AND SOME HAVE CONDUCTED DEMONSTRATIONS OF DEFICIENT OR UNACCEPTABLE MRP SYSTEMS.

HOW MANY CONTRACTORS WERE REQUESTED TO DEMONSTRATE THAT THEIR SYSTEMS MET THE GUIDELINES ESTABLISHED?

WHAT IS THE CURRENT STATUS OF THE INITIATIVE AND WHAT WILL IT TAKE TO GET ALL DOD CONTRACTORS TO MEET THESE GUIDELINES?

MR. REED

THE DEMONSTRATION OF MRP SYSTEMS WAS REQUESTED AT 154 CONTRACTOR LOCATIONS.

DEMONSTRATIONS HAVE BEEN CONDUCTED, OR ARE IN PROCESS, AT 130 CONTRACTOR LOCATIONS. IMPLEMENTATION OF THE GUIDANCE SET FORTH IN THE DEPUTY SECRETARY OF DEFENSE FOR PROCUREMENT MEMORANDUM DATED 22 FEBRUARY 1989 REGARDING CONTRACTOR COMPLETION OF THEIR SELF-ASSESSMENTS AND DEMONSTRATIONS SHOULD PROVIDE THE IMPETUS FOR CONTRACTORS TO ASSURE THAT THEIR MRP SYSTEMS MEET THE ESTABLISHED GUIDELINES. THAT GUIDANCE CALLS FOR THE APPROPRIATE SUSPENSION OF COSTS RELATED TO MATERIALS THAT ARE INCLUDED IN PROGRESS PAYMENT REQUESTS WHERE DEMONSTRATIONS HAVE NOT BEEN PERFORMED OR COMPREHENSIVE ACTION PLANS FOR CORRECTING SIGNIFICANT DEFICIENCIES HAVE NOT BEEN SUBMITTED TO THE GOVERNMENT.

Mr. HUTTO. Our next witness is the Auditor General of the Navy, Mr. Richard L. Shaffer. I would like to provide some background on why Mr. Shaffer is here today representing the Naval Ordnance Surface Labs.

Last year this subcommittee held a hearing on the effectiveness of the Naval Audit Service, and the hearing was prompted by our longstanding concern that naval audit resources were being wasted on trivial matters and the quality of their report was below acceptable audit standards.

The DOD Inspector General and the General Accounting Office confirmed our suspicions, and we took a number of actions during last year's authorization process on the basis of that hearing.

Mr. Shaffer has produced a report that explains how naval audit has implemented our recommendations since last year. A copy of his report is contained in each member's hearing packet.

Mr. Shaffer is here today to update us on the Navy's efforts to improve the effectiveness of Navy audits.

Later this year, we will have another hearing that will encompass the DOD Inspector General's follow-up review that is currently being conducted. At that time, we will get an independent evaluation of whether the naval audit has been improving.

Mr. Shaffer, we are glad to have you with us.

Mr. SHAFFER. Yes, sir. I would suggest that the report you have be placed in the record just behind this statement because this statement is a very brief——

Mr. HUTTO. Without objection, you may summarize.

STATEMENT OF RICHARD L. SHAFFER, AUDITOR GENERAL, DEPARTMENT OF THE NAVY

Mr. SHAFFER. Yes, sir.

Mr. Chairman, it is a pleasure to appear before this committee to discuss improvements that have taken place in the Naval Audit Service since last year's hearing.

Those hearings focused on the various deficiencies identified by the Office of the Inspector General, Department of Defense and the General Accounting Office.

I have prepared a report on the Effectiveness of the Naval Audit Service which was provided, addressing specific actions taken to improve the organization.

I will briefly address these actions. As a consequence of GAO's and DOD IG's findings and last year's hearings, this committee voiced its opinion that I should take action to overcome a perceived lack of independence of the Naval Audit Service.

To alleviate this perception, we have taken several actions. For example, military positions requiring supervision of auditors have either been abolished or civilianized. Only legitimate relationships with the Navy Comptroller's Office will be maintained. The Naval Audit Service legal counsel is presently on the payroll of and evaluated by the Auditor General of the Navy.

In addition to the independence issue, both the DOD Inspector General and the General Accounting Office identified a need to improve the degree of supervision applied during audits. In large measure, this finding resulted from our inability to adequately document supervision. We took immediate action to correct the documentation problem. But, more importantly, we have made a concerted effort to continuously improve the quality of supervision being applied during the performance of audits.

Specific measures being taken to ensure supervision is sufficient and documented include revising internal policies to mandate documentation of supervision; placing special emphasis on supervisory training; and a restructuring audit teams to provide a balanced span of control during audit performances.

I believe these efforts, coupled with an effective performance evaluation system, are beginning to overcome the deficiencies cited by the DOD Inspector General and by GAO.

A consistent criticism from all quarters has been the lack of claimed monetary benefits. During last year's hearings, we were cited for only identifying one dollar of monetary benefit for every four dollars spent during fiscal year 1985, and for reporting monetary benefits during fiscal 1987 which were not in accordance with guidance published by the Inspector General, Department of Defense.

During the last year, the Naval Audit Service has reported $996 million to the DOD Inspector General. These amounts were reported subsequent to DOD IG reviews of our estimate of reportable monetary benefits.

We do not contest the use of gross monetary benefits derived from audits as a measure of our worth, but I would suggest that a more meaningful measure of efficiency is the frequency of findings which include efficiencies.

I overheard part of Derek's testimony where he advised that less than 10 percent of audits DOD-wide contain valid or documented savings. That is not true for the Naval Audit Service. We have gone into a means of measuring whereby we look at the frequency between efficiencies. For instance, in fiscal year 1986 only one of every ten of our findings surfaced monetary benefits. During fiscal year 1988, one of three findings reported contained monetary benefits.

This trend clearly demonstrates the change in attitude within our workforce, and provides the basis for stating rather confidently that the Naval Audit Service has overcome this particular shortcoming.

Another challenge facing us has been the need to transition from conducting rather simple activity audits to more complicated and more comprehensive auditing of important Naval programs.

I am pleased to advise that during fiscal year 1988, about 66 percent of all audit resources have been dedicated to programs with Department of Navy-wide impact. This is a marked improvement over the 1985–1986 era.

The fiscal year 1989 annual audit plan schedules 79 percent of all audit resources to audit such programs. We recognize that we will never move completely away from less complex or activity audits. Some are legitimate. We do recognize, however, that such audits must be the exception vice the norm for our audit agency.

Another improvement has been the increased use of computer technology in the performance of our audits. In December 1985, Naval Audit Service owned twenty-eight micro-computers. Today, we have over 230; two-thirds of which are directly employed in the performance of audits. We intend to procure more. These computers are improving communications, word processing capabilities, and, more importantly, our ability to audit extensive management data bases.

To maintain improvements realized and to identify ways to further enhance our audit process, it is essential that the Audit Service continue to receive quality assurance reviews from an outside entity. These reviews provide an important facet to continually improve the Naval Audit Service. Currently, the DOD Inspector General has six reviews in progress, two more planned for the summer of 1989, and three have recently been published.

To complement the quality assurance efforts of the DOD IG, we have instituted a quality control program. This program was discussed in last year's hearing and has been well received within the Naval Audit Service. It could be employed within all Government auditing organizations.

I have briefly discussed our efforts to transform the Naval Audit Service into an efficient, professional, and effective internal audit organization. I believe we are moving in the right direction. With the continued involvement and support of all concerned parties, and a firm commitment on the part of Naval Audit Service staff, we will continue toward our objective of being a quality internal audit organization.

I thank you, Mr. Chairman. This concludes my statement. I am ready to respond to any questions you may have.

Prepared Statement of Richard L. Shaffer, Auditor General of the Navy

MR. CHAIRMAN:

IT IS A PLEASURE TO APPEAR BEFORE THIS COMMITTEE TO DISCUSS THE IMPROVEMENTS THAT HAVE TAKEN PLACE IN THE NAVAL AUDIT SERVICE SINCE LAST YEAR'S HEARINGS. THOSE HEARINGS FOCUSED ON THE VARIOUS DEFICIENCIES IDENTIFIED BY THE OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE AND THE GENERAL ACCOUNTING OFFICE. I HAVE PREPARED A REPORT ON THE EFFECTIVENESS OF THE NAVAL AUDIT SERVICE, WHICH IS PROVIDED, ADDRESSING SPECIFIC ACTIONS TAKEN TO IMPROVE THE ORGANIZATION. I WILL BRIEFLY STATE THESE ACTIONS.

AS A CONSEQUENCE OF GAO AND DODIG FINDINGS AND OF LAST YEAR'S HEARINGS, THIS COMMITTEE VOICED ITS OPINION THAT I SHOULD TAKE ACTION TO OVERCOME A PERCEIVED LACK OF INDEPENDENCE OF THE NAVAL AUDIT SERVICE. TO ALLEVIATE THIS PERCEPTION, WE HAVE TAKEN SEVERAL ACTIONS. FOR EXAMPLE:

- ACTION HAS BEEN TAKEN TO EITHER ABOLISH OR CIVILIANIZE MILITARY POSITIONS REQUIRING SUPERVISION OF AUDITORS;
- ONLY LEGITIMATE RELATIONSHIPS WITH THE NAVY COMPTROLLER'S OFFICE ARE BEING MAINTAINED; AND

- THE NAVAL AUDIT SERVICE LEGAL COUNSEL IS PRESENTLY ON THE PAYROLL OF AND EVALUATED BY THE AUDITOR GENERAL OF THE NAVY.

IN ADDITION TO THE INDEPENDENCE ISSUE, BOTH THE INSPECTOR GENERAL AND THE GENERAL ACCOUNTING OFFICE IDENTIFIED A NEED TO IMPROVE THE DEGREE OF SUPERVISION APPLIED DURING AUDITS. IN LARGE MEASURE, THIS FINDING RESULTED FROM OUR INABILITY TO ADEQUATELY DOCUMENT SUPERVISION. WE TOOK IMMEDIATE ACTION TO CORRECT THE DOCUMENTATION PROBLEM; BUT MORE IMPORTANTLY, WE'VE MADE A CONCERTED EFFORT TO CONTINUOUSLY IMPROVE THE QUALITY OF SUPERVISION BEING APPLIED DURING THE PERFORMANCE OF AUDITS. SPECIFIC MEASURES BEING TAKEN TO ENSURE THAT SUPERVISION IS SUFFICIENT AND DOCUMENTED INCLUDE:

- A REVISION OF INTERNAL POLICIES TO MANDATE THAT SUPERVISION IS DOCUMENTED;
- SPECIAL EMPHASIS ON SUPERVISORY TRAINING; AND
- A RESTRUCTURING OF OUR AUDIT TEAMS TO PROVIDE A BALANCED SPAN OF CONTROL DURING THE CONDUCT OF AUDITS.

I BELIEVE THESE EFFORTS COUPLED WITH AN EFFECTIVE PERFORMANCE

EVALUATION SYSTEM ARE BEGINNING TO OVERCOME THE DEFICIENCIES CITED BY THE INSPECTOR GENERAL AND THE GENERAL ACCOUNTING OFFICE.

A CONSISTENT CRITICISM FROM ALL QUARTERS HAS BEEN THE LACK OF CLAIMED MONETARY BENEFITS. DURING LAST YEAR'S HEARINGS WE WERE CITED FOR ONLY IDENTIFYING $1 MONETARY BENEFIT FOR EVERY $4 SPENT DURING FISCAL YEAR 1985 AND FOR REPORTING MONETARY BENEFITS DURING FISCAL YEAR 1987 WHICH WERE NOT IN ACCORD WITH GUIDANCE PUBLISHED BY THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE.

DURING THE LAST YEAR, THE NAVAL AUDIT SERVICE HAS REPORTED $996 MILLION TO THE INSPECTOR GENERAL. THESE AMOUNTS WERE REPORTED SUBSEQUENT TO DODIG REVIEWS OF OUR ESTIMATE OF REPORTABLE MONETARY BENEFITS.

WE DO NOT CONTEST THE USE OF GROSS MONETARY BENEFITS DERIVED FROM AUDITS AS A MEASURE OF OUR WORTH, BUT I WOULD SUGGEST THAT A MORE MEANINGFUL MEASURE OF EFFICIENCY IS THE FREQUENCY OF FINDINGS WHICH INCLUDE EFFICIENCIES. FOR INSTANCE, IN FISCAL YEAR 1986, ONLY 1 OF EVERY 10 OF OUR FINDINGS SURFACED MONETARY BENEFITS. DURING FISCAL YEAR 1988, 1 OF EVERY 3 FINDINGS REPORTED CONTAINED

MONETARY BENEFITS. THIS TREND CLEARLY DEMONSTRATES A CHANGE IN ATTITUDE WITHIN OUR WORKFORCE AND PROVIDES A BASIS FOR STATING RATHER CONFIDENTLY THAT THE NAVAL AUDIT SERVICE HAS OVERCOME THIS PARTICULAR SHORTCOMING.

ANOTHER CHALLENGE FACING US HAS BEEN THE NEED TO TRANSITION FROM CONDUCTING RATHER SIMPLE ACTIVITY AUDITING TO MORE COMPLICATED AND MORE COMPREHENSIVE AUDITING OF IMPORTANT NAVY PROGRAMS. I AM PLEASED TO ADVISE THAT DURING FISCAL YEAR 1988 ABOUT 66% OF ALL AUDIT RESOURCES WERE DEDICATED TO PROGRAMS WITH A DEPARTMENT OF THE NAVY-WIDE IMPACT. THIS IS A MARKED IMPROVEMENT OVER THE 1985 - 1986 ERA. THE FISCAL YEAR 1989 ANNUAL AUDIT PLAN SCHEDULED 79% OF ALL AUDIT RESOURCES TO AUDIT SUCH PROGRAMS. WE RECOGNIZE THAT WE WILL NEVER MOVE COMPLETELY AWAY FROM ACTIVITY AUDITS. SOME ARE PERFECTLY LEGITIMATE. WE DO RECOGNIZE, HOWEVER, THAT SUCH AUDITS MUST BE THE EXCEPTION VICE THE NORM FOR OUR AUDIT AGENCY.

ANOTHER IMPROVEMENT HAS BEEN THE INCREASED USE OF COMPUTER TECHNOLOGY TO PERFORM OUR AUDITS. IN DECEMBER 1985, THE

NAVAL AUDIT SERVICE OWNED 28 MICRO-COMPUTERS. TODAY WE HAVE OVER 230, TWO-THIRDS OF WHICH ARE DIRECTLY EMPLOYED IN THE PERFORMANCE OF AUDITS. AND, WE INTEND TO PROCURE MORE. THESE COMPUTERS ARE IMPROVING COMMUNICATIONS, OUR WORD PROCESSING CAPABILITIES, AND OUR ABILITY TO AUDIT EXTENSIVE MANAGEMENT DATA BASES.

TO MAINTAIN IMPROVEMENTS REALIZED AND TO IDENTIFY WAYS TO FURTHER ENHANCE OUR AUDIT PROCESS, IT IS ESSENTIAL THAT THE AUDIT SERVICE CONTINUE TO RECEIVE QUALITY ASSURANCE REVIEWS FROM AN OUTSIDE ENTITY. THESE REVIEWS PROVIDE AN IMPORTANT FACET TO CONTINUALLY IMPROVE THE AUDIT SERVICE. CURRENTLY THE INSPECTOR GENERAL HAS 6 REVIEWS IN-PROGRESS, 2 MORE PLANNED FOR THE SUMMER OF 1989, AND 3 RECENTLY PUBLISHED. TO COMPLEMENT THE QUALITY ASSURANCE EFFORTS OF DODIG, WE HAVE INSTITUTED OUR QUALITY CONTROL PROGRAM. THIS SYSTEM WAS DISCUSSED IN LAST YEAR'S HEARINGS. THIS PROGRAM HAS BEEN WELL RECEIVED WITHIN THE NAVAL AUDIT SERVICE AND COULD BE EMPLOYED WITHIN ALL GOVERNMENT AUDITING ORGANIZATIONS.

I HAVE BRIEFLY DISCUSSED OUR EFFORTS TO TRANSFORM THE NAVAL AUDIT SERVICE INTO AN EFFICIENT, PROFESSIONAL, AND EFFECTIVE

INTERNAL AUDIT ORGANIZATION. I BELIEVE WE ARE MOVING IN THE RIGHT DIRECTION. WITH THE CONTINUED INVOLVEMENT AND SUPPORT OF ALL CONCERNED PARTIES AND A FIRM COMMITMENT ON THE PART OF THE NAVAL AUDIT SERVICE STAFF WE WILL CONTINUE TOWARD OUR OBJECTIVE OF BEING A QUALITY INTERNAL AUDIT ORGANIZATION.

THANK YOU MR. CHAIRMAN, THIS CONCLUDES MY STATEMENT. I STAND READY TO RESPOND TO ANY QUESTIONS YOU OR YOUR COMMITTEE MEMBERS MAY HAVE.

THE UNDER SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

6 March 1989

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives
Washington, D.C. 20515-0901

Dear Mr. Chairman:

I am pleased to forward the enclosed report on "The Effectiveness of the Naval Audit Service," in response to the request reflected in the House Armed Services Committee report accompanying its version of the FY 1989 National Defense Authorization Act.

We believe that the Naval Audit Service, under the leadership of the Auditor General, makes a strong, vital and steadily increasing contribution to management of the Department's program. The report identifies a number of specific actions completed and in process to enhance the Audit Service's effectiveness and efficiency.

Please let me know if further information is desired.

Sincerely,

H. Lawrence Garrett, III

Enclosure

DEPARTMENT OF THE NAVY REPORT

THE EFFECTIVENESS OF THE NAVAL AUDIT SERVICE

FEBRUARY 1989

Table of Contents

Page

BACKGROUND 1

INDEPENDENCE 2

SUPERVISION 4

MONETARY SAVINGS 5

COMPLEXITY OF AUDITS 8

QUALITY ASSURANCE 13

QUALITY CONTROL 15

TRAINING 16

INTRODUCTION OF COMPUTERS 17

SUMMARY 19

BACKGROUND.

In February of 1988 the Readiness Subcommittee of the House Armed Services Committee conducted a special hearing on the effectiveness of the Naval Audit Service (NAVAUDSVC). The hearing was the consequence of severely critical quality assurance reviews conducted by the Office of the Department of Defense Inspector General (DoDIG) and the General Accounting Office (GAO). Specific language was included in the FY 1989 Defense Authorization Bill requiring removal of the military from supervisory positions within the Naval Audit Service. Additional language addressed the need for Defense Auditors General to be experienced accountants or auditors. The report accompanying the Bill requested the Department of the Navy to provide the House Armed Services Committee a report addressing the actions taken or planned to strengthen the professionalism and overall effectiveness of the Naval Audit Service. This report is intended to satisfy that request. It addresses broad areas of concern to the Readiness Subcommittee and Department of the Navy management officials and areas requiring intense management attention cited by DoDIG and GAO in their reports. In February 1989, at the request of the HASC Readiness Subcommittee, the DoDIG inititiated a comprehensive follow-on quality assurance review of the Naval Audit Service. It is believed that that review will confirm that the Naval Audit Service is making significant progress toward improving its effectiveness.

INDEPENDENCE.

According to GAO auditing standards, an audit organization must not only operate in an independent manner but project an image that does not allow a perception of lack of independence. Although GAO and DoDIG could not specifically document that the Naval Audit Service was not functioning in an independent manner, they did conclude a perception of lack of independence. At the Congressional hearing on the effectiveness of the Naval Audit Service it was apparent that the HASC Readiness Subcommittee shared the GAO/DoDIG conclusions concerning a perceived lack of independence on the part of the Naval Audit Service. Accordingly, the Auditor General of the Navy with the approval of the Under Secretary of the Navy took the following actions:

1. The five military positions perceived as being an impairment to independence were either abolished or civilianized. At the writing of this report specific accomplishments include deletion of the Deputy Auditor General billet, physical transition of three of the four Regional Director billets to civilian control with the fourth scheduled for completion in the April/May 1989 timeframe.

2. A breaking of nearly all ties with the Navy Comptroller's office. The Counsel of the Auditor General of the Navy is no longer associated with the General Counsel servicing the Navy Comptroller. Issues requiring resolution are now staffed through the Naval Inspector General's office for Under Secretary of the Navy adjudication vice the Navy Comptroller (NAVCOMPT). Field auditors now request financial policy clarification from NAVAUDSVC Headquarters vice the Navy Comptroller. NAVAUDSVC personnel within the Washington metropolitan area can no longer be members of the NAVCOMPT Recreation Association. On the other hand, the Auditor General of the Navy (AUDGENAV) considers the Assistant Secretary of the Navy for Financial Management (ASN(FM)) to be a key DoN management official and advises him and audits his programs in a manner similar to that enjoyed by other key DoN management officials. Additionally, a continuing dialogue exists between the Comptroller and NAVAUDSVC on audit findings which address efficiencies that can be used to adjust budget requests. Audit oversight responsibilities concerning the DoN Internal Review Program and potential use by NAVCOMPT of audits as Computer Systems Evaluations (CSE) are maintained.

3. The NAVAUDSVC Counsel is now paid for and evaluated on an annual basis by the Auditor General of the Navy. This change has improved the independent image of the Naval Audit Service.

The Auditor General of the Navy and the Under Secretary of the Navy are aware of the need to have an internal audit capability that is independent and projects the proper image of being independent. This sensitivity is a conscious and continuing consideration throughout the internal audit process. An example of this is the recent policy decision to include a Secretariat representative on the Senior Executive Service Performance Appraisal Board. This was done to improve the chances for an auditor in an SES position to successfully compete for a bonus.

SUPERVISION.

DoDIG and GAO emphasized a need for the Naval Audit Service to improve the degree of supervision applied during audits. Based on several GAO quality assurance reviews of internal audit agencies it appears that the basic finding leading to this conclusion is a lack of documentation of supervision. The Auditor General of the Navy is committed to improving the amount of documentation and more importantly the degree and quality of supervision being applied during the conduct of audits. To accomplish this objective short term, near term and long term goals are in order. In the short term the internal policies of the Audit Service must mandate documentation of supervision. Additionally, personnel in supervisory positions must be schooled on proper supervisory techniques. Actions to achieve these short term objectives have been taken. In the near term the NAVAUDSVC must size the number of individual auditors to supervisory personnel in a manner which provides the proper span of control to allow a working environment conducive to effective supervision. Within the past year the Naval Audit Service has recognized the need, and has developed a position management strategy in line with the desired audit team structure. In the long term, the Audit Service is committed to align its manpower against the revised structure.

Proper application of the flexibilities inherent within the DoN Management to Payroll concept will allow the Audit Service to eventually achieve the proper supervisor to employee ratio. Attainment requires the manager to have sufficient patience to introduce change as normal attrition occurs. This is the most efficient way to realize the desired result. The Audit Service believes that in an ideal situation an Assistant Director will oversee the work efforts of no more than three auditors-in-charge who have under them an average of eight qualified auditors. In theory an Assistant Director would be managing three major audit efforts, each directly supervised by an auditor-in-charge. Normally one audit would be in survey phase, one in verification, while a third would be in the utilization phase. In layman's terms, one would be starting with a moderate amount of manpower being applied, a second would be in process with an extensive amount of effort being applied, while a third would be tapering off with a minimal amount of manpower being applied. A consistent attempt to achieve the proper worker to supervisor balance, coupled with mandated documentation of supervision, a sufficient level of effort of supervisory training and an effective performance evaluation system will eventually overcome the deficiencies cited by GAO and DoDIG in this area.

MONETARY SAVINGS.

DoDIG, GAO and the Congressional Committee emphasized the need for the Naval Audit Service to identify a greater level of potential monetary benefits. At the hearing the Auditor General of the Navy testified that this deficiency was valid in the 1985 and prior year timeframe which served as the basis for the DoDIG and GAO finding. He provided data which revealed positive action on the part of the Naval Audit Service to reverse the trend. The attached chart presents historical data since 1985.

Amounts reported to the Department of the Navy and to the Congress are provided. There is a slight deviation in the data since the DoDIG has promulgated specific guidelines for reporting potential savings to the Congress. To improve the credibility of NAVAUDSVC savings reported to the Congress, the DoDIG has conducted in-depth reviews of savings reported during each of the three most recent submissions. During each review a significant amount of NAVAUDSVC reported savings have withstood the DoDIG review. It is of interest to note that the area of greatest discrepancy related to findings is associated with overstated obligations. DoDIG guidance does not allow Defense audit agencies to report these savings to Congress. Public Law Nr. 100-504 of October 18, 1988, now requires that these be reported. An area of current dispute between NAVAUDSVC and DoDIG relates to potential savings as a result of findings wherein excess materials, parts or end items are identified which can be used to offset valid inventory or allowance requirements. DoDIG guidance does not specifically allow such potential savings to be reported to the Congress. The Naval Audit Service is committed to provide the Secretary of the Navy with information deemed appropriate to allow the Department to be managed more efficiently while, at the same time, is committed to report only those potential savings to the Congress consistent with DoDIG guidance. Fortunately, the GAO audit standards allow for information within audit reports to be qualified. Accordingly, NAVAUDSVC includes total potential efficiencies within the audit reports to the Navy and Marine Corps providing specific language in the audit report to identify those amounts which will not be officially reported to the Congress. This allows the Naval Audit Service to satisfy the needs of both the Department of the Navy and the DoDIG.

The current intent of the NAVAUDSVC to primarily conduct economy, efficiency and program result audits should ensure a continuation of the current level of potential monetary benefits. Recent trends, however, portend that a larger segment of the audit workforce may be compelled to perform oversight audits, investigative assists, follow-up audits and other compliance type audits which have a low probability of large returns on investment ratios.

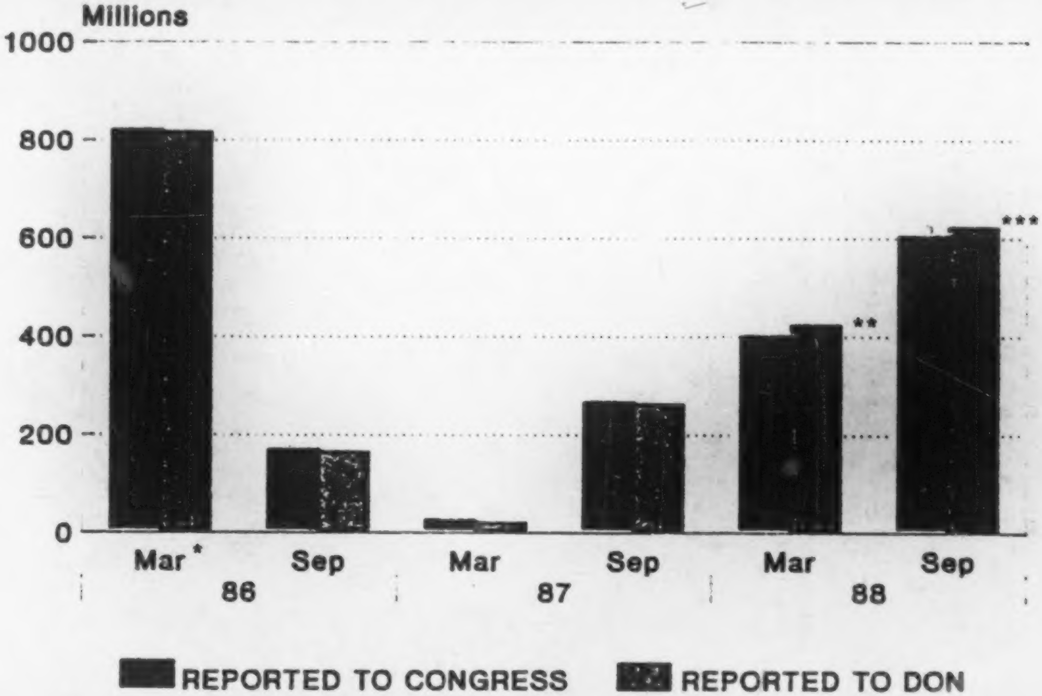
RATIO OF TOTAL FINDINGS TO FINDINGS WITH POTENTIAL MONETARY BENEFITS

FY 1986	FY 1987	FY 1988
10:1	5:1	3:1

The NAVAUDSVC is currently monitoring internal productivity. The best measure of the audit agency's progress in changing its audit approach is in the rate at which findings and recommendations containing quantifiable efficiencies are appearing in audit reports. The Auditor General of the Navy continually emphasizes the need to maintain and enhance this ratio.

In summary, it is believed that the NAVAUDSVC has overcome this GAO/DoDIG-cited deficiency.

MONETARY BENEFITS FROM AUDITS



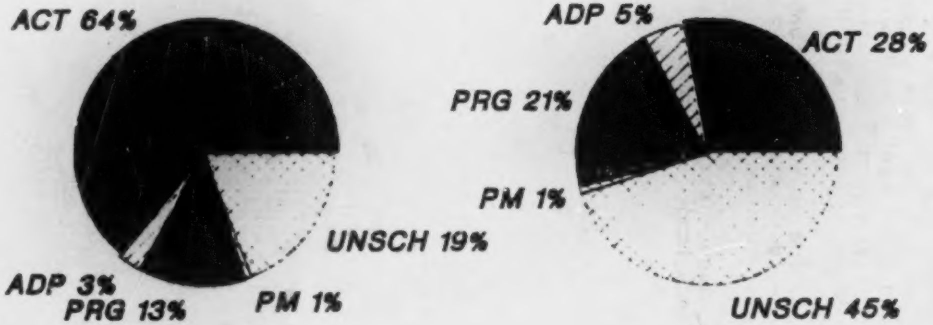
* Includes $699M in deobligation of funds
** Includes $26M in deobligation of funds
*** Includes $23M in deobligation of funds

COMPLEXITY OF AUDITS.

Since 1985 the NAVAUDSVC has attempted to move toward accomplishing more complex program performance audits to more nearly conform to the GAO standards. Both DoDIG and GAO have voiced agreement with this approach. The attached charts provide information on the trends being experienced.

It is intended that these trends be extended into the future. From a management perspective the audit workforce will attempt to apply appropriate parts of the Deming management philosophy to achieve greater productivity by constantly striving to improve the overall audit process. Such a strategy should lead to a continuation of the trends being experienced.

CHANGE IN EXECUTION OF AUDIT TYPES FROM SIMPLE TO COMPLEX

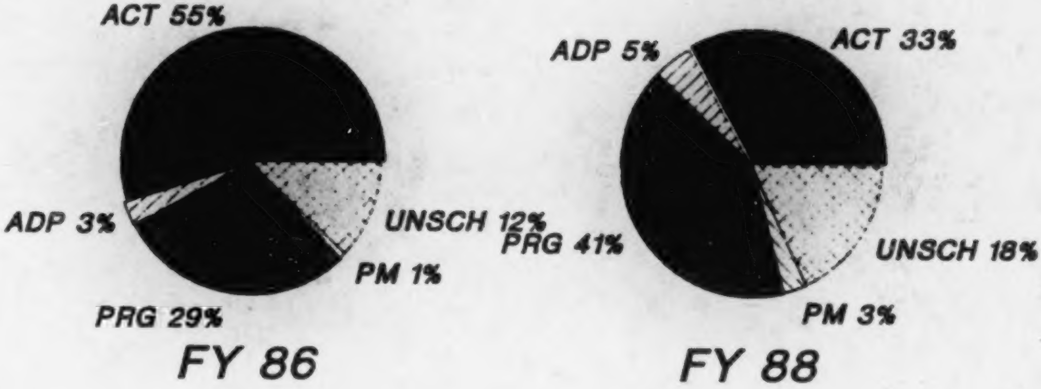


FY 86

FY 88

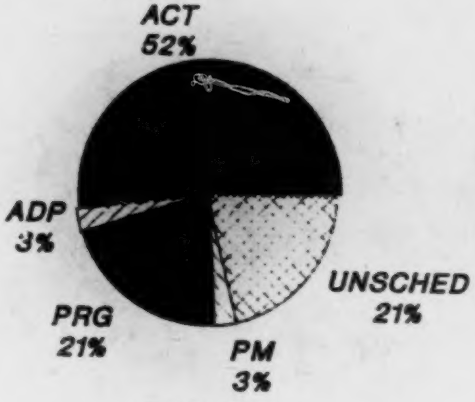
BASED ON NUMBER OF PUBLISHED AUDITS

CHANGE IN EXECUTION OF AUDIT TYPES FROM SIMPLE TO COMPLEX

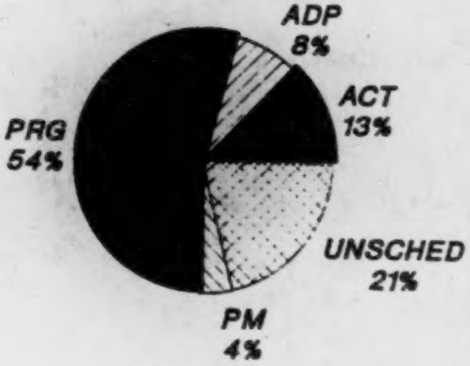


BASED ON CUMULATIVE ACTUAL HOURS FOR PUBLISHED AUDITS

CHANGE IN EXECUTION OF AUDITS FROM SIMPLE TO COMPLEX



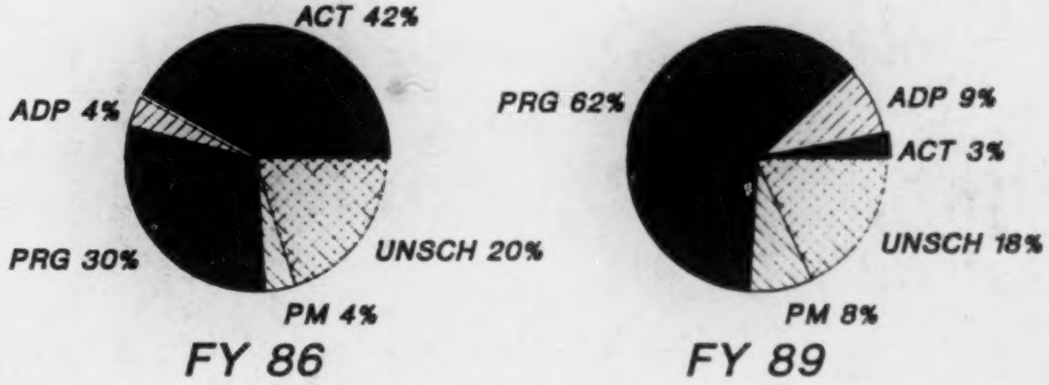
FY 86



FY 88

BASED ON FY ACTUAL HOURS INVESTED

CHANGE IN PLANNED AUDITS FROM SIMPLE TO COMPLEX



BASED ON PLANNED HOURS

QUALITY ASSURANCE.

It is essential that the Naval Audit Service receive quality assurance reviews from an outside entity. The exposure to such efforts over the last decade have benefited the organization. DoDIG has the following functional reviews underway or planned.

QA REVIEW TITLE	START DATE	COMPLETION DATE
	PLANNED	
Use of Technical Experts	Jul 89	Feb 90
Acquisition and Use of Microcomputer Technology	Jul 89	Feb 90
	ONGOING	
Quality Assurance Followup Review of the Naval Audit Service	Feb 89	Oct 89
Annual Audit Planning by DOD Internal Audit Organizations	Feb 89	Nov 89
Detecting and Reporting Fraud	Dec 87	Mar 89
Potential Monetary Benefits	Sep 88	Jun 89
Work Paper Documentation Supporting	Sep 88	Jun 89
Non-Appropriated Investment Practices	Oct 87	May 89

The NAVAUDSVC has and will react positively to valid findings resulting from these reviews. The AUDGENAV considers the DoDIG personnel conducting these reviews to be an important facet of his overall capability to continually improve his ability to fulfill the mission of the Naval Audit Service.

Recently completed reviews include

QA REVIEW TITLE	PUBLICATION DATE
Report on the Oversight Review of Programs for Achieving and Maintaining Professional Proficiency within the DOD Internal Audit Organizations (APO 89-008)	10 Feb 89

QA REVIEW TITLE	PUBLICATION DATE
Report on the Oversight Review of Time Reporting by Department of Defense Audit Organizations (APO 89-002)	2 Feb 89
Review of Audit Followup Reporting of Monetary Benefits	23 Nov 88

Positive action has been taken to correct valid deficiencies brought to NAVAUDSVC attention in these reports. For instance, the review concerning the follow-up system cited several inefficiencies within the automated information system used to track the status of NAVAUDSVC audit report recommendations. An upgraded system is now in operation correcting the problems inherent in the old system. When the data for the next reporting period is forwarded, the Naval Inspector General and DoDIG staff will be briefed on the revised system and requested to provide any additional advice that could assist in making further improvements.

In summary, it would appear that the DoDIG approach toward providing constant functional quality assurance reviews should assist in maintaining an effective internal audit function within the Department of the Navy.

QUALITY CONTROL.

During the Congressional Hearing the Readiness Subcommittee Chairman expressed the need for disciplinary action to be taken if subordinate personnel within the Naval Audit Service failed to comply with the legitimate intentions of management. The Auditor General of the Navy replied by outlining a quality control mechanism that would be applied within the organization. That system is now functioning. During the past year the following reviews have been completed and forwarded to DoDIG.

QC REVIEW TITLE	PUBLICATION DATE
Quality Control Review of the Trident Refit Facility and Aerial Targets Audits	27 Jul 88
Quality Control Review of the Information Systems Management and Reimbursable Funding Audits	18 Nov 88
Quality Control Review of the Navy Price Challenge Feb 89 Program and Selected Planned Program Requirements for Non-Aviation Material Audits	1 Feb 89

It is anticipated that DoDIG will conduct follow-up reviews in each of these areas and, where corrective measures have not been taken, the Auditor General will initiate prompt and decisive action against the responsible individuals.

The approach being used has been well received within the NAVAUDSVC and could be employed within all government audit agencies. It represents a true peer review. Final quality control reviews are signed by the Auditor General of the Navy. He considers these reviews to be one of the most effective management tools for establishing and maintaining a high standard for the conduct of audit within the organization. The head of a quality control team reports directly to the Auditor General during the conduct of the review.

TRAINING.

The Auditor General of the Navy considers training to be vital to maintaining an effective audit function over the long term.

Several actions have been taken to ensure the conduct of a viable training program. A few follow.

Resources associated with training are managed separately from other programs to avoid the need for training to compete with the high payback current production function. The Auditor General of the Navy directed that a hands-on audit training site be established to provide entry level auditor interns with a firm foundation for conducting audits within the Department. Accordingly, Capital Region has worked with Headquarters to develop such a capability at the Patuxent Naval Air Station. Incoming auditor interns receive extensive training at an audit office at that site conducting relatively simple audit assignments. This allows them an opportunity to apply the theories/concepts learned through formal classroom instruction at an earlier learning phase in the Washington, D.C., area. These individuals are then assigned to a mobile audit unit in the Washington, D.C., metropolitan area where they participate in a more complex audit and additional formal classroom training. The overall training takes over a year and ends when the auditor is assigned to his/her sponsoring audit unit. This program processes between 20 and 30 students per year. In the future, if sufficient resources are available, it will be expanded to satisfy needs of other Regions. This is essential since current Capital Region attrition is insufficient to support an effort of this magnitude.

With respect to the journeyman auditor, he is required to develop an annual training plan. Priority is given to mandatory courses such as sexual harassment and security training. Needs associated with audit skills tied to current and a planned workoad also must be cited in the plan. Examples of training associated with audit workload include hazardous waste and program management training. Other training needs relate to professional training. The NAVAUDSVC captures these training needs at Headquarters.

In the long run the current process will be more efficient through the use of electronic transmission of data from local site to the organizational element at Headquarters overseeing the overall training needs of the Audit Service. The equipment is on order and the software is being developed.

A recent development in the area of training has been the opportunity for AUDGENAV to sit as a member of the Advisory Committee of the Interagency Audit Training Program. In that capacity he hopes to assist the Agriculture Graduate School to develop course content within its program of instruction to provide naval auditors with the information required to assist them in more effectively auditing an ever changing environment.

INTRODUCTION OF COMPUTERS.

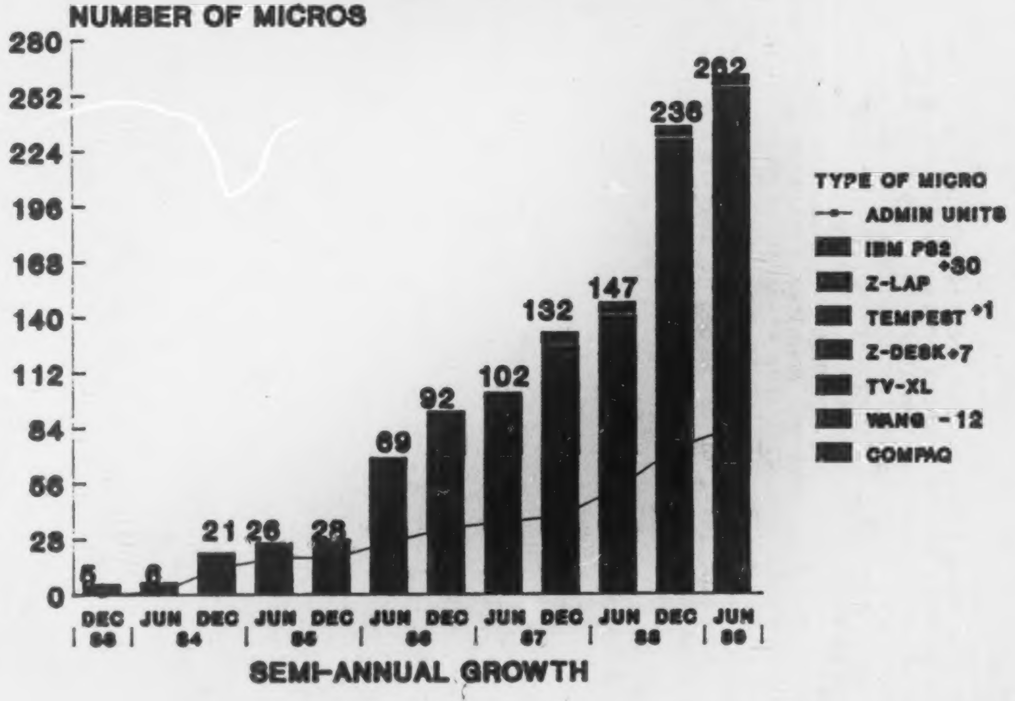
Since assuming the position of AUDGENAV in 1986 the current Auditor General has emphasized the need to acquire and apply the capabilities of computer technology to more effectively achieve the mission of the organization.

The chart on the next page portrays the significant improvements achieved in this area. This equipment, combined with training and the transformation of the audit staff toward an ever improving degree of computer literacy, is producing some astounding results. At the Navy Inventory Control Points the naval auditors are able to download spares inventory data and analyze it to match known inventory against identified unrecorded excesses. Such auditing techniques are identifying sizeable potential savings for the Department.

Computers are also being used to measure progress toward improving productivity. Current efforts are in the embryonic stage but are sufficiently complex to place the Naval Audit Service as a finalist in its quest for the coveted Senate Productivity Award.

In the long run the acquisition and application of computer technology against the audit function and the audit process management function will progressively enhance the effectiveness of the Naval Audit Service.

NAVAL AUDIT SERVICE
FY89 FORECAST OF MICROCOMPUTERS
(INCLUDES HQ & FIELD OVERHEAD)



SUMMARY.

We have attempted to provide sufficient information to demonstrate to the members of the Readiness Subcommittee of the House Armed Services Committee that the Department of the Navy intends to support the initiatives of the Auditor General of the Navy in his attempt to transform the Naval Audit Service into a very efficient, professional and effective internal audit organization. It would appear that we are moving in the right direction. Success, however, requires that each party involved--the Department of the Navy, the Naval Audit Service under the leadership of the Auditor General, GAO, DoDIG and certainly the Congress--continue to provide the proper degree of attention and a sufficient level of resources to sustain the current level of success while allowing the organization to strive to realize an ever increasing degree of excellence.

Mr. Hutto. All right. Thank you, Mr. Shaffer.

Mr. Shaffer. Yes, sir.

Mr. Hutto. Your report does not list any specific examples of reports that you are especially proud of, reports that you originated since you have been in Naval Audit that address high-level subjects and made recommendations that have implications Navy-wide.

Would you please spend a moment talking about some of the audits that you feel that made significant impacts within the Navy, especially those that pertain to fleet operations?

Mr. Shaffer. Yes, sir. Bear in mind that internally within the Audit Service, we try to avoid rating one audit against another. When I first came to the Audit Service, I found if we had one good audit, we would give the people who worked on that audit a bonus. Thus, the question asked was, which is the more important audit?

An audit that has a profound impact on Navy policy is our annual internal control audit. As a consequence of that audit, we pen a memo to the Secretary of the Navy indicating some specific areas that, as a consequence of the legislation associated with FMFIA, must be reported to the Secretary of Defense. These areas contain deficiencies that should be looked at by the Secretary.

That is an important audit. It has an impact on the total Navy and, yet, we cannot quantify savings. Thus, there are no associated dollars included in our billion dollar savings.

We are currently doing a follow-up of our audit on the readiness of our air forces afloat, so to speak. Specifically: How do the carriers operate? What kind of supply support effectiveness exists on them? How well does the SNAP I or SNAP II computer system work to support that effort. How effective are we at controlling our inventory afloat?

That is an audit that has to do with fleet readiness.

We are currently involved in several audits, one of which is on the way we calibrate equipment used afloat. Given the nature of auditing it may be another 6 months or a year before it is published, but we have invested about a year and a half of effort into that particular audit. Our auditors are boarding individual ships to see what kind of equipment is there, how well it is calibrated, what the potential inventories are. We are doing more of this type of audit.

Historically, we have done little work on board ships. However, the Audit Service has reviewed the ship store area aboard ships; we are currently doing a follow up on an audit in that area, complexed 2 years ago.

We have performed an audit of the CARCUSS tracking area which identified significant savings. In this audit, we are looking at the supply support aspect of one facet of the Navy. We provided a copy of this report to your staff.

Whether we realize it or not, this area has a direct influence on the readiness of the fleet. We tend to do quite a few of those types of audits.

We are in Kings Bay now completing an audit, that audit should be published within the next month or two, where we have challenged the way the Navy oversees the overall Military Construction (MilCon) appropriation, how we determine requirements, how we execute the program.

As a consequence of this audit, we will develop special procedure for auditing MilCon in total for the Department.

Depending on how much time you have, I could talk about many more different examples of these types of audits.

Mr. HUTTO. I think that is sufficient, and you can provide for the record, if you will, a few of the more notable ones.

Mr. SHAFFER. Let us say ten and if that is acceptable to you, that makes it easier for me.

Mr. HUTTO. That will be fine.

Mr. SHAFFER. All right, sir.

[The following information was received for the record:]

SIGNIFICANT AUDIT PRODUCTS

During the hearing held on 8 March 1989, the Auditor General of the Navy promised to provide the House Armed Services Committee, Subcommittee on Readiness information on ten audits considered significant. Most of our audits are proving to be significant. Accordingly we have selected representative audits produced from various Naval audit managers. They are listed below with a summary of each audit provided at the corresponding TAB.

AUDIT TITLE	TAB
Automatic Data Processing Equipment Maintenance Management in the Department of the Navy (081-W-88)	1
Requirements for T-34 Aircraft (084-S-88)	2
Establishing Secure Terminal Unit-III Telephone Requirements (096-S-88)	3
Peer Review of Marine Corps Audits of Nonappropriated Fund Instrumentalities (023-C-88)	4
Management of the CT-39 Operational Support Aircraft (137-S-88)	5
Carcass Tracking and Billing for Aviation Depot Level Reparables (123-N-88)	6
Marine Corps Light Armored Vehicle Program (120-W-88)	7
Employee Relocation Services Contract (119-C-88)	8
Review of the F-14D/F-14A (PLUS) Full Scale Engineering Development Program of the Naval Air Systems Command (025-H-88)	9
Logistics Planning for the Maritime Prepositioning Ships Program (030-C-89)	10

AUTOMATIC DATA PROCESSING EQUIPMENT MAINTENANCE MANAGEMENT IN THE DEPARTMENT OF THE NAVY

(081-W-88)

Background: Automatic data processing equipment (ADPE) maintenance is the process of keeping computers and peripheral and related equipment in good working order to maximize the time it is available to the user and to help ensure that it achieves its useful life. Most maintenance within the Department of the Navy

(DON) is performed by commercial contractors. However, another option is the use of in-house maintenance. With the rise of microcomputers in the DON, some degree of in-house maintenance is increasingly being considered by managers as a way to decrease maintenance costs. Some commands have had substantial in-house maintenance functions for sometime or are considering establishing them.

Due to a Congressionally-mandated program to purchase all uneconomically leased ADPE, which took effect on 1 February 1984, most formerly leased ADPE is now or soon will be Government-owned. This has required a shift in management emphasis toward managing ADPE maintenance separately, instead of as a taken-for-granted part of the overall lease/maintenance cost. As a result, managers are becoming more aware of the high cost of ADPE maintenance. The estimated cost of maintenance for Government-owned ADPE in the DON for FY 1986 was about $236 million, of which about $18 million was applicable to the Marine Corps.

Audit Objectives: Determine if: (1) maintenance requirements were based on mission requirements and if the maintenance alternatives selected were the most appropriate and economical; (2) the effectiveness and economy of ADPE maintenance methods were periodically reviewed and evaluated; (3) maintenance data were collected and analyzed to support the choice of one maintenance alternative over another (4) ADPE maintenance contracts were being timely and properly written and administered; and (5) the DON had policy and plans for ensuring continued maintenance of civilian-maintained systems in overseas locations in times of hostilities.

Audit Findings:

(1) DON information resources managers were, in many cases, not selecting the most economical maintenance method consistent with operating requirements. Consequently we estimated that annual ADPE costs in the DON are at least $26 million more than they should be.

(2) ADPE maintenance requirements at DON activities were not formally defined and documented, including the importance of related systems to activities' missions. As a result, independent review of maintenance requirements as a basis for choosing the most appropriate maintenance alternative was hampered. Without a method of establishing and documenting maintenance requirements, activities operating ADPE may choose, at greater than necessary cost, maintenance alternatives that are not consistent with their underlying actual requirements.

(3) Navy and Marine Corps activities did not collect, summarize, and analyze ADPE maintenance data as a basis for determining equipment reliability or for determining the most appropriate maintenance alternative. Consequently, more costly maintenance methods than necessary were selected.

(4) Contracts and orders which did not become effective until long past the beginning of the fiscal year when ADPE maintenance services were required appeared to be typical. Failure to take action to improve this condition could lead to administrative inefficiency and loss of control, uncertain

maintenance coverage leading to possible operational degradation or disruption, higher maintenance cost, and claims against the Government.

(5) DON had no policy or procedures specifically designed to ensure the continued maintenance of critically needed ADPE at ashore commands and activities in foreign countries during periods of hostilities.

Status: Published 10 March 1988.

REQUIREMENTS FOR T-34 AIRCRAFT
(084-S-88)

Background: The T-34C TurboMentor is a two-seat, single engine training aircraft used by the Navy in Basic and Intermediate flight training. Since Fiscal Year 1977, 334 T-34C aircraft have been procured by the Navy. The plane is projected to remain in service for a period of 24 years at 800 flight hours per year. Requirements for T-34C aircraft are computed by the Chief of Naval Air Training using planning factors approved by the Chief of Naval Operations (CNO) based on pilot and Naval flight officer training rates.

Audit Objective: To determine whether sufficient T-34C aircraft were available to meet identified training requirements.

Audit Finding: CNO planning factors showed there would be an aircraft shortage for training starting in Fiscal Year 1989 which would continue through 1993. As a result, CNO approved procurement of 19 additional aircraft. Naval Audit Service review shows that the current inventory exceeds current training requirements by 47 aircraft and excesses will continue through 1993. This condition existed because planning factors used to calculate aircraft requirements did not reflect actual conditions. We recommended the cancellation of the current procurement that would result in a potential one-time cost avoidance of $19 million. CNO did not agree with the recommendation.

Status: The audit report was published 5 April 1988 with the recommendation unresolved and elevated to the Under Secretary of the Navy for resolution. An acceptable methodology to calculate training aircraft requirements was reached on 7 November. The recalculation of requirements through Fiscal Year 1999 resulted in a one-time reduction in the need for 19 T-34C aircraft a a cost of $1,039,550 each. Total cost avoidance, $19.8 million confirmed by a letter from CNO of 15 December 1988.

ESTABLISHING SECURE TERMINAL UNIT-III TELEPHONE REQUIREMENTS
(096-S-88)

Background: National Security Decision Directive 145, dated 17 September 1984, directed military departments to provide secure telecommunications to protect classified and unclassified but sensitive information. Subsequently the National Security Agency initiated a program to provide low cost secure telephone terminals which led to development of the STU-III telephone. Navy commands computed requirements for 277,900 STU-III telephones costing $666 million.

Audit Objective: The objective of the audit was to determine if STU-III requirements had been accurately established.

Audit Findings: Sufficient controls were not in place to detect or preclude material internal control weaknesses. STU-III requirements were inaccurate and generally not supportable. Audit identified excess requirements of 33,000 units valued at $79.7 million.

Status: Report issued 5 April 1988 and CNO agreed to our claimed one-time potential cost avoidance of $79.7 million.

PEER REVIEW OF MARINE CORPS AUDITS OF NONAPPROPRIATED FUND INSTRUMENTALITIES

(023-C-88)

Background: The mission of the Marine Corps Nonappropriated Fund Audit Service (MCNAFAS) is to provide independent, objective, and constructive appraisals on the operation and management of nonappropriated fund activities to the Commandant of the Marine Corps, Commanding Generals/Officers, cognizant staff agencies, and Nonappropriated Fund Instrumentality managers. Audits performed by MCNAFAS are to be conducted in accordance with "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States.

Audit Objectives: (1) Evaluate whether internal controls applicable to areas audited were adequate to prevent or detect material errors and irregularities; (2) determine compliance with directives and regulations applicable to the audited areas; (3) determine if resources were managed and utilized efficiently and effectively; and, (4) determine if audits were conducted in accordance with generally accepted government auditing standards.

Audit Findings: (1) Audits were completed and reports published in a timely manner. However, (1) some reports and work papers were not prepared in accordance with Comptroller General standards; (2) opinions expressed in audit reports were not always supported in the work papers; (3) instances of fraud or illegal acts were not always identified and reported or if they were, documentation in the work paper could be improved; (4) the frequency of audits could be reduced; and, (5) civilian personnel could be used to perform audits.

Status: Report published 29 December 1987. MARCOR agreed to a recurring potential cost avoidance of $548,000 realized by reducing the frequency of audit coverage of selected areas.

MANAGEMENT OF THE CT-39
OPERATIONAL SUPPORT AIRCRAFT
(137-S-88)

Background: The CT-39 is a land-based, lightweight, turbojet aircraft designed as a multipurpose transport. The mission of the CT-39 aircraft is to quickly transport high-priority, light cargo, and passengers. Current Navy and Marine Corps inventory includes six CT-39E and 12 CT-39G models assigned to nine locations worldwide. In FY 1986, all the CT-39's flew 12,553 hours for an average cost per flight hour of $1,288 plus fuel.

Audit Objectives: The objectives of the audit were to (1) validate the need for the CT-39 and the peacetime utilization of the CT-39 aircraft; (2) identify savings that could be realized by leasing aircraft with lower operating costs; (3) identify areas where improvements can be achieved with regard to maintenance and supply support; and (4) determine whether internal controls over government-owned spare parts are adequate.

Audit Findings: Annual reviews to determine actual wartime need for the CT-39 aircraft have not been performed as required. An organic aircraft study in FY 1986, contained a substantial amount of inaccurate information. Chief of Naval Operations (CNO) did not concur. The Under Secretary of the Navy resolved the issue by requiring annual reviews of the CT-39 wartime requirements and the revalidation of the organic airlift study. The study is to be completed in August 1989.

The CT-39 turbojet aircraft could be replaced with less expensive turboprop aircraft at an annual savings of about $12.8 million. CNO agreed to do a study to identify options for replacement of the CT-39 aircraft.

The CT-39's were not being economically utilized as a peacetime transporter of government personnel. We identified 251 flights (coded as high travel priority) for routine official business that could have been made on commercial carriers at a savings of $473,000. CNO did not agree. The Under Secretary of the Navy resolved the issue requiring users to properly cite the reason for travel and when practical use commercial carriers on routine official business travel.

The contractor exceeded the authorized stocking level of spare parts by $4.8 million. We estimated that $2.6 million in procurement of spare parts could have been avoided if the Navy managed contractor acquired material. Management agreed to establish controls to ensure that authorized stocking levels are not exceeded.

The use of contractor personnel to provide on-site supply support to CT-39 aircraft is not necessary. The supply support functions performed are routine and could be absorbed by military personnel at a savings of $445,000 a year. CNO commented that a new CT-39 full maintenance and material support contract will require present contractor personnel to be replaced by Federal Aviation Administration certified mechanics who will maintain supply support as collateral duty.

Status: Audit report published on 7 September 1988.

CARCASS TRACKING AND BILLING FOR AVIATION DEPOT LEVEL REPARABLES

(123-N-88)

Background: The carcass tracking system was designed to track aviation depot level reparable (AVDLR) carcasses turned in by users. In April 1985, the Navy initiated a 3-year test to the stock funding concept for AVDLRs. Under this concept, the Navy Aviation Supply Office (ASO) uses the Navy Stock Fund to obtain AVDLR inventories. User activities purchase AVDLR items using Operation and Maintenance, Navy funds. Users buying an AVDLR without a carcass turn-in are billed at the standard price. Meanwhile, to provide users with a financial incentive for returning carcasses for repair, users indicating an exchange turn-in are billed at the net price (about 35 percent of the standard price).

Audit Objectives: The objectives of the audit were to determine whether: (1) programs and resources were managed and utilized effectively, and (2) receipt, issues, followup, and billing transactions were processed in accordance with established procedures and regulations.

Audit Findings: The effectiveness of the carcass tracking system relies upon timely, complete, and accurate reporting of transactions, as well as efficient processing and monitoring. However, due in part to the newness and complexity of the system, the AVDLR program and resources were not always managed and utilized effectively and pertinent transactions were not always processed in accordance with procedures and regulations.

We estimated that $111.4 million of the $121.4 million in reported losses, from the nine activities in our review, were not actual asset losses. We recommended that ASO investigate losses recorded on the carcass tracking system, coordinate surveys, and adjust onhand balances when appropriate. Navy management has agreed to investigate losses after 1986. The issue is currently being addressed to the Under Secretary of the Navy to adjudicate.

User errors caused ASO to sometime bill for not turning in carcasses even though they were turned in and to sometime give users credit when carcasses were not turned in. We estimated $32.6 million in erroneous billings and $1.8 million in erroneous billing reversals. Although some corrections were made, we estimate $6.1 million in potential savings could be achieved if erroneous billings and credits in prior years were corrected. The Under Secretary of the Navy adjudicated this issue. It was agreed that prior year records could not be adjusted based on statistical projection and that only the $800,000 of erroneous billing and credit identified in the audit report would be corrected.

Due to ASO's failure to process two computer tapes, an estimated $169.1 million in losses were not recorded, $67.9 million in bills were not issued, and $16.9 million in bills were not reversed so that customers could receive credit. ASO agreed to process the computer tapes and control processing better in the future.

Naval Supply Systems Command was not adequately monitoring reported transshipment losses. If transshipment losses are not correctly recognized, AVDLR prices could be understated. Including transshipment losses in future stock fund price computations would result in $46.6 million cost avoidance. Naval Supply System Command agreed to use transshipment losses in the computation of future AVDLR prices.

Status: Audit report published 24 June 1988.

MARINE CORPS LIGHT ARMORED VEHICLE PROGRAM
(120-W-88)

Background: The Marine Corps Light Armored Vehicle (LAV) program was initiated to increase the tactical and strategic mobility of amphibious and rapid deployment forces and to fill the need for additional firepower on the battlefield. The Marine Corps procured 758 LAVs at a production cost of about $350 million. As of 30 September 1987, the Marine Corps had received 600 of the 758 vehicles, with the remaining 158 to be delivered by 30 March 1988.

The LAV is an 8x8 wheeled, self-propelled, and helicopter transportable vehicle. The Marine Corps LAV Required Operational Capability states that the LAV Battalion is to be capable of operating as a self-contained combined-arms force. It is best utilized in highly mobile combat operations. To provide the LAV Battalions with their own protection against air threats, an air defense variant was approved for Full Scale Development, with this capability planned to be achieved by converting 125 existing LAVs.

Audit Objectives: Determine if planned logistics (supply, maintenance, and facilities) and personnel support (training and manpower allocation) were effective and efficient in preparing for readiness and sustainability of LAV units; if LAV requirements were adequately defined and validated; and if desired results will be achieved.

Audit Finding: We found that the Marine Corps plan to convert 125 existing LAVs into an air defense variant will degrade the LAV Battalion's ratio of support to operational assets to less than half that allocated to other armored battalions. Purchase of additional LAVs to provide the air defense capability would cost about $26.5 million less than converting current LAVs and procuring replacements at a later date. Also, the requirements for War Reserve Stock of LAV repair parts were overstated by about $23.5 million and the inventory of collateral and accessory items exceeded requirements by about $2.5 million.

We recommended that the Commandant of the Marine Corps (1) determine the number of LAVs required to support the current planned operational force of 524 LAVs, (2) request Secretary of the Navy approval to exceed the current ceiling of 758 LAVs, if requirements exceed current assets, and (3) delete the requirement that using units turn in LAV accessory items when obtaining an LAV from an exchange pool, and (4) direct that all such items held in these pools be returned to the supply system. Also, we recommended that the Fleet Marine Force recompute war reserve stock repair parts.

Status: Report 120-W-88 was published 15 July 1988. Management agreed to take the specified recommended actions.

EMPLOYEE RELOCATION SERVICES CONTRACT (119-C-88)

Background: Public Law 98-151, which was passed in November 1983, authorized Government agencies to enter into contracts to provide relocation services for agencies and their employees. The Navy entered into a relocation services contract, effective 1 June 1987, with an aggregate potential cost to the Navy of $138 million for the basic contract plus four option periods.

Department of the Navy employees eligible to use the service include those in the Senior Executive Service, GM/GS-13s and higher (or the equivalent), those on mobility agreements, and all others whose relocation is in the interest of the Government. Services provided at no cost to the employee include guaranteed home sale, property management for vacated homes, home search for buyers and renters, and mortgage counseling/funding assistance.

Audit Objectives: Determine if the relocation services program has achieved or will achieve the desired result of encouraging mobility for eligible Department of the Navy employees and if the program is cost effective.

Audit Findings: We found that only 27 percent of employees contacted stated that the service affected their decision to relocate and most had significant complaints with the service. Our audit indicated that unless changes are made to the relocation services program, the Navy could spend as much as $50 million more than it would without the program. We identified actions to partially offset this deficit.

We recommended that the Office of Civilian Personnel Management (OCPM) (1) require additional documentation from the contractor, (2) improve contract monitoring, (3) ensure prospective users learn about the service, (4) clarify policy for employee eligibility, and (5) initiate action to reduce Temporary Quarters Subsistence Expense Allowance (TQSE) from 60 to 30 days for employees using the service.

The audit claimed savings of $31.5 million associated with reducing the TQSE eligibility period and ensuring that prospective users learn about the service, its benefits and liabilities, and how to use it most economically.

Status: Report 119-C-88 was published 19 July 1988, with an unresolved issue concerning the reduction of TQSE. This issue was resolved with OCPM's agreement to reduce the basic TQSE period to 45 days (reduces total audit claimed savings to $23 million). OCPM plans to review usage and provide monetary and statistical information to the Auditor General of the Navy by 31 July 1989.

REVIEW OF THE F-14D/F-14A (PLUS) FULL SCALE ENGINEERING DEVELOPMENT PROGRAM OF THE NAVAL AIR SYSTEMS COMMAND

(025-H-88)

Background: The F-14D aircraft is to provide long-range detection, identification, engagement, and destruction of enemy aircraft and missiles threatening the fleet, and maintain air superiority well into the twenty-first century. The initial need for a high performance aircraft was documented in September 1968. The F-14A was developed to meet the requirement, became operational in 1974, and has been in continuous production in the same basic configuration since 1969.

The Product Improvement Program was divided into a two-part program known as the F-14D/F-14A (PLUS) Full Scale Engineering Development (FSED). The engine, radar and avionics were to be developed concurrently. Production of the F-14A aircraft stopped in FY 1986. Aircraft produced subsequent to FY 1986, with only the new engine upgrade, are designated F-14A (PLUS). Production of the aircraft with the engine, radar, and avionics upgrade, known as the F-14D, was to start in FY 1988; delivery is scheduled for March 1990. A number of avionics and weapons systems currently are in development within the Department of Defense for installation on the F-14D aircraft. Only one test aircraft will incorporate the new engine and upgraded avionics and radar to demonstrate a fully integrated F-14D aircraft during Operational Evaluation. The Secretary of the Navy (SECNAV) approved the FSED program on 6 July 1983. He directed that the program cost not exceed $989.6 million.

Audit Objectives: The audit objectives were to determine whether: (1) desired results were being achieved, and (2) other alternatives that might yield results at a lower cost were considered.

Audit Findings: (1) The F-14D/F-14A (PLUS) program was started prior to the development, review, and approval of program documentation. DOD Directives define review and approval procedures for Acquisition Category IIS projects. Program documentation must be prepared, reviewed by the Department of the Navy Systems Acquisition Review Council, and approved by SECNAV prior to starting the program. Subsequent program changes must follow the same approval process. This process establishes a baseline to compare actual accomplishments to those approved by management. The Naval Air Systems Command did not follow these procedures and we were unable to compare actual performance to a baseline to determine if desired objectives were being achieved or if alternatives were considered that would yield the same results at a lower cost.

(2) SECNAV set a program cap of $989.6 million prior to receiving an independent cost estimate when he approved the program on 6 July 1983. The cap was to prevent cost growth. However, as the program developed, the Naval Air Systems Command realized cost would exceed the cap so it removed a substantial portion of program cost from the cap. The total program cost estimated at 31 December 1986 projects that actual costs will exceed the program cap.

(3) The Naval Air Systems Command did not reduce technical and cost risk to an acceptable level in awarding a not-to-exceed letter contract for $863.8 million on 31 July 1984 and the options of $120.5 million on 1 August 1984. Using a firm fixed price contract to prevent exceeding the SECNAV cap, did not follow current Navy Acquisition Policy. Also, as of 31 December 1986, the contractor was unwilling to definitize the contract and requested an additional $260 million to complete the work.

(4) The Naval Air Systems Command established a contract price and selected a contract type without adequate cost data required by Federal Acquisition Regulations. They would not delay FSED effort while waiting for the contractor's cost proposal and still meet F-14D production date schedules. They awarded a letter contract, which does not require contractor cost data, for $863.8 million; removed the subsystems from the cap and included them as contract options; and added the equitable adjustment clauses to reduce contractor risk.

(5) Significant problems have occurred in the development of aircraft systems which are to be furnished as Government Furnished Equipment. These problems have or may increase development cost, delay test schedules, or delay delivery of a fully equipped F-14D aircraft to the fleet.

(6) The structure of the original and the revised testing and evaluation programs for FSED and the relationship of the testing and evaluation to the production decision points do not follow instructions. As a result, production decisions may be made without the benefit of fully evaluated testing and evaluation results. The Naval Air Systems Command scheduled limited production decisions to keep the FSED contractor's production line operating. Three years of limited production could result in costly rework later.

Status: Facts presented in this report show that the program has some major problems. The development effort cannot be accomplished within the SECNAV cap, cost growth will occur as a result of Government Furnished Equipment problems and delays in development, and three limited production decisions are required because tests results cannot be completed on schedule. Implementation of the recommendations in this report will help improve stability and result in more effective, efficient, and timely acquisition. The audit report was published 19 November 1987. All recommendations were closed as a result of actions taken or responses received meeting the intent of the recommendations.

LOGISTICS PLANNING FOR THE MARITIME PREPOSITIONING SHIPS PROGRAM

(030-C-89)

Background: The Maritime Prepositioning Ships (MPS) program began in 1979 as a means of enhancing military force mobility by prepositioning ships loaded with supplies and equipment around the world. There are 13 ships in the program, which form 3 squadrons located in the Atlantic, Pacific, and Indian Oceans. Each squadron is loaded with weapons, equipment, and supplies to sustain a Marine Expeditionary Brigade for 30 days of sustained combat. In the event of hostilities, Marines and Navy Support personnel would join the ships for offload and deployment as a Maritime Prepositioning Force.

The Navy and Marine Corps have completed the tremendous tasks of obtaining the ships, equipment, and supplies; loading and placing the ships on station; and beginning initial shore-based maintenance of ships and equipment. They have also done an outstanding job of correcting most of the problems from the initial loadout.

Audit Objectives: The audit objective was to evaluate the overall logistics planning for the MPS program, including (1) how requirements are determined, (2) how effective the system is for prioritizing acquisitions, (3) how adequate the present inventories are, and (4) how accurate the information is about cargo space requirements. We also reviewed the accuracy of data supporting the plans to build a second cargo maintenance facility on Guam.

Audit Findings: (1) The Navy planned to build a cargo maintenance facility on Guam to serve Pacific and Indian Oceans MPS squadrons instead of having the 9 ships involved go to the existing facility at Blount Island Terminal in Jacksonville, Florida. Cancellation of plans for the Guam site would decrease MPS ship availability by less than 2 percent and result in a cost savings of about $148.2 million.

(2) The Marine Corps needed to revise the statement of work for contractor maintenance to reflect the actual work which the contractor can accomplish on board. The contractor was required to perform intermediate level maintenance while equipment was on board MPS ships; however, contractor employees on board could not do this work because there was little or no space between equipment, and maintenance shops were located as many as five levels above where equipment was stored.

(3) Marine Corps Logistics Base, Albany was exceeding authorized quantities of equipment and supplies for the MPS program. We identified excesses totaling $36.8 million that could be redirected to fill other active requirements and this action would also eliminate recurring holding costs of $3.8 million.

(4) MPS inventory records for MPS supplies stored at three locations were substantially inaccurate and overstated due to inadequate recordkeeping and weak internal controls. Audit checks of the inventory identified almost $70 million of errors, or 81 percent of the applicable inventory value.

(5) The MPS program had not achieved full operational readiness because MPS responsibility was fragmented, with no central, high-level office directing the progress of this $9.6 billion program.

(6) At least 4 of the 13 MPS ships worldwide had not instituted physical security procedures specified in their contracts. Also, Military Sealift Command had not provided the guidance, promised in July 1986, on gangway alarm systems for these ships.

(7) The Marine Corps planned to make the three MPS squadrons interchangeable so that any MPS-assigned Brigade could deploy with any squadron. However, because the Brigades were using different inventory computer systems, they could not easily use the information concerning another squadron to plan a deployment or exercise.

Status: Report 030-C-89 was published 28 February 1989, with agreed to savings of $188.8 million.

Mr. **Hutto**. Procurement fraud is the hot topic concerning DOD this year, but audit organizations are seldom mentioned in these cases.

Please discuss which organizations within DOD are in the best position to detect procurement fraud. How are your people trained in fraud detection, and can you tell us of any successes the Naval Audit may have had in this area?

Mr. **Shaffer**. If you look at our audit plan, what you will find is we dedicate about 1 percent of our resources against what I refer to as specific program audits.

Now, someone would question, why such a small percentage against that type of endeavor? Well, if you look at total Navy resources and you look at the amount of effort being applied by the DOD IG and GAO into our procurement sector, there is not a great need for us to look at relatively major procurement programs.

Now, to the extent we are in there and looking, we are beginning to challenge some specific programs. We are currently doing a program performance audit in our CAP region of the Stand-off Land Attack Missile, today on programs, its acronym is SLAM. We are challenging that program from a program performance perspective in that one element of the Navy is developing a capability to do something that would be transferred to another element of the Navy that it may not be able to use this capability having identified this situation during the course of the audit, we brought it to management's attention and suggested that they completely reevaluate that program to determine if, in fact, they should pursue the program.

Now, as we do that type of audit, our auditors in today's environment actually visit the individual contractor facilities to determine what it is that they are building for the Navy in accordance with the contract.

Contract fraud is very difficult to identify. The DCAA function relative to actually auditing the individual contracts probably gives them a little better sense and a little more visibility as to what is actually occurring in that area.

What type of fraud do we identify? About 2 years ago we were doing an audit at the Navy Material Transportation Office in Norfolk. During this audit we noticed that excessive amounts were being charged for storage of material. We immediately called in the Navy Investigative Service and began monitoring what was occurring within that activity.

Within a couple of weeks, we began finding all kinds of illegal actions being carried out by people within the local areas, some of whom were contractors with storage facilities, others were Government employees. When we get into a situation like that, we, as auditors, back out and a full-fledged investigation occurs. However, we provided the Naval Investigative Service with our support.

Let us take the procurement fraud issue within Navy. We actually provided a team of auditors to work with the Navy Investigative Service to sort the information they had to determine whether they could develop evidence of the quality required by the Justice Department to prosecute. Our people worked with them 2 to 3 months. I think there is a hearing on that issue this afternoon before another committee, and if the Investigative Service calls us back in to assist them in developing additional evidence, we will go back in.

Procurement fraud is difficult to detect from a pure and simple audit perspective. There is a lot of emphasis now to send our people to school and to develop training courses. Typically, our auditors work together with investigative officials.

Usually the investigator is more keenly attuned to finding fraud or people conducting themselves in an illegal way because he is looking for it. We are normally out auditing to determine if the program manager is pursuing his program in an efficient manner relative to satisfying the Government's needs.

In summary, the whole audit community is prone to look for fraud. When we find it, we turn it over to the Naval Investigative Service. If they require assistance, we provide it. We normally have six to ten active investigative assist efforts on-going. They range from theft of petty cash to something of the nature of the procurement fraud issue that we worked with the Naval Investigative Service on.

Mr. HUTTO. OK. Mr. Lancaster.

Mr. LANCASTER. Mr. Shaffer, at last year's hearing, we found that the number of audits performed had decreased by 50 percent in 1986 and 1987.

What were the results of 1988 and, if you would, compare those results to 1985, 1986 and 1987? What is your forecast for 1989? Also, along the same lines, last year the IG found that over half of the Navy audit reports did not contain any recommendations. Please update us, if you would, on improvements in this area as well.

Mr. SHAFFER. I would like to provide specifics for the record. I can tell you that each year, we have been doing fewer and fewer audits for a number of reasons.

One, we are moving from a rather simple audit to a more complex audit. We used to go into a local activity, for instance, an air station in Jacksonville. We would have an entrance conference. Using a standard program guide. We would send five auditors in and within 6 months, we could almost guarantee we would issue a report that was handed to the CO of that activity. There would be a chance that perhaps one or two recommendations would go to the NavAir Systems Command CO here in Washington for comment.

If that is the nature of the audit, then we tend to do three hundred a year. Today's environment, we are looking at rather comprehensive programs on a Navy-wide basis, at least the audits we have initiated recently and intend to audit in the future.

Given the numbers of resources we have, that reduces the numbers of audits that we work on and produce within a given year to a number less than a hundred. I am not saying that is good or bad. I am just saying if you do a more comprehensive audit, you have to put more resources on it. You have to do a significant amount of research.

For instance, an audit that is about to come out on Government support equipment where we think we may have a finding in excess of $300 million, that one audit, I understand, has twenty-five volumes of working papers; whereas, the simpler audit of as recently as 2 years ago might have had two volumes of working papers.

[The following information was received for the record:]

During the hearing Mr. Lancaster asked Mr. Shaffer about the decrease in the number of audits performed by the Naval Audit Service. Specifically, he asked, "What were the results of 1988 and, if you would, compare those results to 1985, 1986, and 1987, and what is your forecast for 1989? Also, along the same lines, last year, the IG found that over half of the Navy audit reports did not contain any recommendations. Please update us, if you would, on improvements in this area as well." Mr. Shaffer agreed to provide specifics for the record.

This information is also provided in the response to question 13 of the questions provide for Mr. Shaffer to answer.

AUDITOR GENERAL OF THE NAVY RESPONSE:

The number of audits published has continued to decrease as we transition to more complex program audits. Comparative data for FY 1985 through the first half of FY 1989 shows this decrease in the number of reports.

Fiscal Year	Reports	Monetary Benefits (Millions)
1985	319	$ 6.0
1986	281	981.4
1987	193	280.9
1988	160	996.0
1989(1st half)	50	345.6

We estimate that in the second half of FY 1989 we will publish 38 additional reports with claimed monetary benefits of over $600 million.

The IG finding that half of Naval Audit Service reports did not contain any recommendations was based on a non-statistically derived sample of FY 1986/FY 1987 reports. The sample included Commercial Activity Reviews we conduct which result in letter reports without findings, command requests, and concurrent audits. We no longer perform command requests and concurrent audits. The FY 1988 total of 160 reports published included 35 letter reports which normally contained no recommendations. In addition to Commercial Activity Reviews, letter reports result from audits with no material findings and termination of audits when significant events or management actions have obviated the need for an audit.

Mr. **Lancaster**. Who has made the decision that this is a more appropriate field of audit?

Mr. **Shaffer**. I would say that is our reaction to the criticism received from this committee, from DOD IG, and from GAO, and having listened to that and worked with our auditors, I have made the decision that this type audit will do.

We develop our plan. We brief it. No one has challenged it. So, I think the people at DOD IG would agree that that is the right way to go about auditing within the defense establishment.

Mr. **Lancaster**. We will get back to my question with regard to recommendations, but I want to follow up in this general area.

Your report mentions the recent workload trends portend that a larger segment of the audits will be focusing on assignments that have a low probability of developing large returns for your auditing dollars, and I assume that that is what you are talking about here.

Mr. **Shaffer**. No, sir. Talking about something else.

Mr. **Lancaster**. OK. If you would get into that.

Mr. **Shaffer**. Yes, sir. As we have more procurement fraud, as the fear grows on the management side that certain things need to be looked at more frequently, we tend to receive guidance which says audit this, audit that. There is draft guidance within the Defense Department now that will require us to do much more extensive work relative to audits which are contracted out within the defense establishment.

To the extent we apply audit resources against that oversight role, we have to pull those people from doing audits that would have a potential to surface bonafide savings.

There are a lot of examples of a similar nature. The quality assurance reviews we are now doing within the Navy's internal review program. Before the Goldwater-Nichols Bill, which directed that all audits within Navy come under our purview, I daresay we did not do those quality assurance reviews. We just finished one on land fleet, and it fit in well, I think, with what GAO was doing relative to Navy's internal review program.

But those types of audits which consume resources, we are getting more and more pressure to do more and more of that type auditing. To the extent we do this, we have to recognize that that is going to diminish the amount of resources we are able to apply against these other audits which have a much higher payback.

Mr. **Hutto**. Mr. Lancaster, I am sure you have more questions along those lines, but we have a lot of questions here to submit for the record. If you will do that, also.

Mr. **Lancaster**. OK. Let him just answer the question that he did not answer that I have already asked, and that is with regard to recommendations. The fact that less than 50 percent of your audits had any recommendations.

Mr. **Shaffer**. I think that DOD IG will comment on that 6 or 8 months from now, and I think you will find that——

Mr. **Lancaster**. How about your commenting on it today?

Mr. **Shaffer**. Most of our audits have recommendations in them. If I see a letter report, it goes back to the regional director with a nasty note.

Now, they come back and tell me, this is really good auditing. If we have a good topic and we go in and we audit it and we find that the deficiencies we anticipated are not there, the smartest thing to do is issue a real quick letter report and get into another area rather than to consume a lot of resources trying to find the problem.

I think if you look at the number, we issue fewer letter reports than we used to, and I think it is considerably less than 50 percent.

Mr. LANCASTER. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Bilbray?

Mr. BILBRAY. Yes. Mr. Shaffer, I am new to the committee. One of the things that I have heard from other members of the committee is the problem with the Navy audits. It is probably of the services, the one that seems to be of most concern within the committee.

How many auditors do you have totally under your authority?

Mr. SHAFFER. I have 594 civilians who work within the Naval Audit Service. Of that complement, 424 on board today are bonafide registered auditors.

Mr. BILBRAY. How long do they stay with your department? I mean, do you have a big turnover or——

Mr. SHAFFER. When I came there, turnover was unbelievable. Today's turnover is so small that my regional directors are complaining because they cannot take care of some needs because when you get attrition, you get a little bit of money. If you gap the billet and do not fill it for awhile, you can use that money to redecorate your office or things of that nature or buy a piece of equipment you want.

Well, as a consequence of what this committee has done and as a consequence of the emphasis being placed by DOD IG and GAO, as a consequence of all the improvements we have made, when we advertise a job now for fill, we get a hundred applicants as opposed to getting nine or ten a few years ago.

So, our problem right now is that the word is out that whether we like it or not, we are going to have to improve the situation and there are people in the system who want to come to an organization of that nature.

Mr. BILBRAY. Now, you do not audit ships, is that correct?

Mr. SHAFFER. I do not know what that means. If I look at a system and that system is going aboard a ship at some point in time, as we audit that system, we may go out on that ship to see how it is functioning.

Mr. BILBRAY. Do you ever even haphazardly or randomly audit the affairs of a ship as to its equipment, its stores, its accounts and so forth, just to make sure that a regular naval ship of the line or even a support ship or something, that the moneys that are accountable on the lower levels or are you just looking at the bigger picture rather than the small one?

Mr. SHAFFER. There are 400 plus ships out there. 490? Was that the latest numbers? We moved to 600. If I were to go out and select a specific ship and audit it, I am pretty confident that the Navy would love it, but I think the audit community would look at that as an activity audit.

What we are being asked to do by the community, I think, and what GAO is saying to us in their standard is do program performance, economy and efficiency auditing, which means that we should go out and audit the failing system.

To the extent that one of them is on the rear end of an Aegis cruiser, we may have to go out there and physically look at it to see if it is positioned properly, such that it could function in accordance with the concepts.

So, that is the type auditing we are doing. Now, within the Department of the Navy, we have an inspection system through the IG's office which is a military inspection system, and they do inspections of that nature.

Mr. **Bilbray**. OK. I will probably ask silly questions as the year goes by, and you will have to bear with me because I have to learn the procedure.

Mr. **Shaffer**. That is not a silly question. We are currently auditing strategic holoporting, which means we are at Staten Island.

Mr. **Bilbray**. All right.

Mr. **Shaffer**. We are counting ships and we are looking to see where they come from and we want to make sure they fit.

Mr. **Hutto**. Just briefly, if the gentleman would yield. On board a ship, say a cruiser-destroyer, is there not somebody on there who kind of checks the luggage, audits what is going on aboard the ship?

Mr. **Shaffer**. That is the inspection function, though, within Navy. Yes, sir.

Now, we will go in, if we are asked to. If we go in and there is a pot of money on board that ship that is used to fund different things, and if somebody disappears with a part of that money, we will go on board that ship with Navy Investigative Service and go over those accounts to try to find out what happened to this money.

Mr. **Bilbray**. I just always remember the story of my uncle who was a naval warrant officer. He is long dead now, so I can tell this story. As a supply officer, as he got 150 miles off San Diego, they used to dump all the food overboard because they could resupply at a full level when they arrived at base because anything that they had when they arrived, if they had 25 percent of their supplies left, then they would only be recommissioned for the same type of cruise with 75 percent the next time out.

That was just on one ship. I just wondered how far down we check these things.

Mr. **Shaffer**. Well, I will tell you how we audit that. We go into the military personnel Navy account and we look at the FSO. We look at the resources within that account which are there to fund subsistence, and we see a carrier in the Mediterranean consuming more subsistence or food than appears appropriate, then we go over here and look at the central books. I have done that as an analyst within NavCom as well as within the audit service.

So, there are ways to check that.

Mr. **Bilbray**. OK. So, today, it is not 1945 or 1950. With new methods, you think a lot of this stuff is covered. I mean, that is just a small thing, but I am just wondering if a little thing can add up to a big thing and as we go along, maybe we will see more——

Mr. **Shaffer**. Well, see, I have a team which sits next to—which is co-located with them and we get into the actual military personnel accounts. I have one in Kansas City which is looking at the Marine Corps military personnel account.

We look at how funding is consumed to satisfy the needs of the military either through direct pay or entitlements or through the subsistence accounts. So, as strange as it sounds, it shows in those accounts if there is an abuse of the system.

Mr. **Bilbray**. Thank you.

Mr. **Hutto**. Thank you, Mr. Bilbray. We now know what the fish in the Pacific are so large.

Mr. Shaffer, thank you for your testimony and response to our questions.

Since we do not have time, if you will provide for the record how you—you touched on the fact that funds available because of attrition were used to paint offices and so on. Would you give us a little explanation on how those funds are used.

Mr. **Shaffer**. I think that was more facetious, but I can show you the improvements we have made in the audit service for habitability of our people——

Mr. **Hutto**. That would be good.

Mr. **Shaffer**.Through efficient use of resources.

Mr. **Hutto**. Let us know how those funds are used due to attrition and——

Mr. **Shaffer**. Right, sir.

Mr. **Hutto**.What authorities and so on.

[The following information was received for the record:]

USE OF FUNDS

During the 8 March 1989 hearing, Congressman Hutto requested information concerning funds made available as a result of attrition. Remarks made during the hearing lead him to understand that these funds were reprogrammed to renovate office or purchase furniture. This is not the case.

During the period 1 October 1987 through 1 March 1989 the Naval Audit Service expended $153,000 on office renovation or furniture.

The most significant expense was for the procurement of furniture for our Hardware Systems Command audit sites to improve intolerable working conditions for our auditors located there. These auditors are pursuing the program performance audits that are most likely to provide a large return on investment. Enhancement of grade level and work environment have improved retention, thus stabilizing the work force and improving our chances of achieving quality products as a consequence of their efforts. Other expenses related to such requirements are installation of an air conditioning unit at one site, drapes at two others, painting of four offices in our Southeast Region, and other such minor working space improvements. These funds were available because at that time we were not achieving our funded man-years. Recent needs for improvements to improve work spaces are being deferred or being forwarded to higher authority for funding consideration since we are not achieving programmed strength levels. Examples of these are an effort to improve headquarters working spaces, an effort to expand our Northeast Region Headquarters offices, and space rental fees for office space to house our Foreign Military Sales audit team. These represent continuing facility maintenance costs that are legally and properly funded from Operation and Maintenance funds. On an annual basis they are rather minor and have historically been funded from overall funds allocated to the organization.

Mr. HUTTO We do thank you very much. We will have more questions for you which we would like to have answered for the record.

Mr. SHAFFER. Thank you very much.

[The following information was received for the record:]

QUESTION 1:

THERE ARE OVER 900 INTERNAL REVIEWERS WITHIN THE NAVY, WHO REPORT TO THEIR COMMANDING OFFICERS. THIS IS A LARGER NUMBER THAN THE AUDITORS IN YOUR CENTRAL AUDIT ORGANIZATION. YOU RECENTLY REVIEWED THE QUALITY AND INDEPENDENCE OF THESE REVIEWERS. PLEASE SHARE YOUR FINDINGS AND RECOMMENDATIONS WITH US.

DO YOU BELIEVE THESE RESOURCES WOULD BE BETTER UTILIZED IF THEY WERE FOLDED INTO NAVAL AUDIT, OR PERHAPS GIVEN TO THE DODIG?

AUDITOR GENERAL OF THE NAVY RESPONSE:

Concerning the first part of the question, in FY 1988, the Naval Audit Service evaluated the effectiveness of internal review at selected U.S. Atlantic Fleet activities. We will provide a copy of the audit to your staff. Overall, our evaluation showed that improvements are needed to make internal review more effective. DOD policy defines internal review as an audit function which should comply with government auditing standards. However, our evaluation found that internal review activities had not fully implemented the required government auditing standards. For example, Commanding Officers at three internal review activities potentially impaired auditor independence and effectiveness on future audits by assigning internal review personnel to operational tasks. Internal review directors stated that the government auditing standards did not apply to their work because they were making informal reviews instead of formal audits. In our opinion, however, the internal review activities categorized audits as reviews to avoid the requirement for meeting government auditing standards.

On a positive note we found that Commanding Officers actively supported and were well informed of the responsibilities of internal review. For example, the staffs were highly motivated and consisted predominantly of personnel qualified as professional auditors or management analysts. Periodic training was being provided and appeared to be adequate for the needs of the commands and the individuals.

In addition to non-compliance with auditing standards, we found other problems with the internal review organizations regarding audit coverage, reporting, and cost effectiveness as follows:

- The annual audit and review plans of internal review organizations did not provide for balanced coverage over command functions or include all areas rated highly vulnerable. Internal review personnel did not recognize the need for comprehensive plans. For example, during FY 1987, the internal review activities at six commands visited expended an average of 49 percent of their time on nonappropriated fund areas. However, the value of nonappropriated fund activities averaged only 10 percent of total appropriated and nonappropriated funds at these six commands. This condition was due to the desire of some Commanding Officers to have nonappropriated funds audited frequently.

- As a result of insufficient and unclear guidance the Navy Internal Review organizations consolidated and reported information for the semiannual reports to Congress containing unintentional inaccuracies. Naval Audit Service auditors found significant errors in reported operating costs, monetary benefits, and numbers of audits.

- Internal review organizations were not cost effective. For example, the $4.6 million in operating costs reported by U.S. Atlantic Fleet internal review program during the 23-month period ending 31 July 1987, exceeded the $1.1 million in reported monetary benefits by $3.5 million. For the entire DON internal review program, the total operating cost of $56 million exceeded the $43 million in monetary benefits by over $12 million for FY 1986 and FY 1987. However, it should be noted that in FY 1988, Navy Internal Review identified monetary benefits of $66 million with operating costs of $33 million, a two to one return on investment.

Concerning the second part of your question, we need to address the function performed by the 900 - 1,000 Internal Reviewers within the Department of the Navy. All the people are not auditors nor are all of them performing audit functions. A recent study chaired by the Naval Inspector General determined that only 18 percent of effort within this work force are devoted to internal auditing. The study recognized that the balance of the Internal Review effort related to the conduct of affairs associated with audit liaison functions including audit follow-up plus some amount of non-audit review effort conducted at the request of the local Commanding Officer. Based on those findings it would appear appropriate for the Department of the Navy to formally disestablish Internal Review and cease reporting these resources and the result of their efforts through DODIG to the Congress on a semiannual basis.

It is of interest to note that the Under Secretary of the Navy tasked the Navy Inspector General to review the Internal Review Program. That review is complete. Based on the Navy Inspector General's recommendation the Under Secretary abolished the Internal Review Program. An instruction implementing this change was issued on 13 April 1989. The major points of the instruction are:

- The Internal Review Program is disestablished.

- Commanding officers are identified as being directly responsible and accountable for the performance and mission effectiveness of their units. Specifically, commanding officers are:

    - Responsible for maintaining command economy, efficiency, effectiveness and integrity;

    - Authorized to retain all Internal Review assets since commands were provided no additional assets when the program was established and due to continuing workload;

- May retain an in-house audit function, but it will be subject to the policies, standards, and oversight of the Auditor General of the Navy; and
- To focus internal management efforts to reduce costs of operations, increase production and eliminate waste, fraud and abuse.

I view the current position of the Department of the Navy to be an improvement to the former program structure.

Any decision regarding an increase of assets for the Naval Audit Service should be made by the Navy only after the implementation of this instruction and a determination as to the remaining level of audit has been made. If commanders elect to rely on the Naval Audit Service to satisfy their local audit needs rather than retain locally responsive audit capability, we will recommend an appropriate adjustment to our end-strength to allow the Naval Audit Service to respond to this increased workload. This workload would include increases in the level of command request audits, additional investigative assist requests, increased audit effort in the nonappropriated funds area, unannounced disbursing audits and some portion of our audit resources would have to be oriented toward activity audits.

QUESTION 2:

DURING LAST YEAR'S HEARINGS, WITNESSES QUESTIONED THE COMMITMENT OF THE DEPARTMENT OF THE NAVY TO HAVING AN EFFECTIVE INTERNAL AUDIT ORGANIZATION. WHAT SPECIFIC ACTIONS HAS THE CURRENT SECRETARY OF THE NAVY TAKEN TO ASSURE YOU THAT YOU HAVE HIS COMPLETE SUPPORT AND THAT HE IS COMMITTED TO HAVING AN EFFECTIVE INTERNAL AUDIT FUNCTION? HOW OFTEN DO YOU MEET WITH THE SECRETARY?

AUDITOR GENERAL OF THE NAVY RESPONSE:

Subsequent to last year's hearing I met personally with Secretary Ball to discuss the Committee's concerns. We agreed to meet at critical junctures within the course of business. In particular we agreed to meet three to four times each year to discuss such things as the audit plan, the overall resource posture of our organization, and other such conventional management needs. In addition to those meetings we decided that a weekly status report would be a meaningful vehicle for maintaining a continuous dialogue. These reports frequently generate questions indicative of the Secretary's strong interest and support for our effort. Additionally, I have access to the Secretary of the Navy on an as required basis to discuss audit issues of interest to him. These issues have included such things as our auditing effort with respect to Government Furnished Property, recent audits in the Chief of Naval Reserve area, information exchanges with Republic of China Naval officials and other such items.

An important thing to remember is that I report to the Under Secretary of the Navy and the frequency of interface with him is a more realistic measure of the effectiveness of our organization. I believe our working relationship is ideal. I have complete access to the Under Secretary, sometimes seeing him on a daily basis, but always whenever I believe a need exists.

Specific examples of actions taken over the past year signifying support from the Secretary and Under Secretary for this organization include:

- The Secretary of the Navy established two new Senior Executive Service positions within the Naval Audit Service.
- The Secretary and Under Secretary supported the increased grade structure of the Naval Audit Service Capital Region.
- The Secretary and Under Secretary supported all internal Naval Audit Service initiatives to overcome the deficiencies cited by GAO, DODIG, and AUDGENAV.
- The Under Secretary of the Navy took the initiative to support funding needs of the Naval Audit Service.
- The Under Secretary of the Navy plays a very active role in the audit adjudication process.
- The Under Secretary sponsored our quest to be recognized for excellence in productivity through the Senate Productivity Award Program.

QUESTION 3:

YOU STATED THAT ACTIONS HAVE BEEN TAKEN TO ABOLISH OR CIVILIANIZE MILITARY POSITIONS REQUIRING SUPERVISION OF AUDITORS. WHICH POSITIONS WERE ABOLISHED AND WHICH WERE CIVILIANIZED? HOW MANY MILITARY PERSONNEL DOES NAVAL AUDIT SERVICE HAVE NOW, AND WHAT IS THEIR ROLE?

AUDITOR GENERAL OF THE NAVY RESPONSE:

The Naval Audit Service took action to eliminate all military positions responsible for audit supervision. This action affected 5 senior military positions. The Deputy Auditor General of the Navy, a Navy Captain position, was abolished. The 4 Regional Directors, 3 Navy Captains, and 1 Marine Corps Colonel, were replaced by civilians, 2 GM-15s, and 2 members of the Senior Executive Service. Each civilian has substantial audit experience. Two other more junior positions of a supervisory nature were abolished in the field. Additionally the AUDGENAV no longer has a military executive aide.

There are currently 29 military personnel assigned to the Naval Audit Service. A significant number, 10 Naval Officers, are assigned to the Management Consulting Services Directorate and are not involved in the audit function. A Marine Corps Officer and 2 Naval Officers provide liaison between the Naval Audit Service Headquarters and various Department of the Navy commands. The remaining military personnel, 16, are junior

Naval Officers assigned to the various Regional offices where they function as junior auditors directly subordinate to a qualified senior civilian auditor. The military officers assigned to the Naval Audit Service serve in non-supervisory positions. Each is providing a valuable service to this organization. It is anticipated that their numbers will diminish over the long term due to shortages of military personnel throughout the Navy establishment.

QUESTION 4:

IN THE 1988 REPORT, GAO REPORTED SERIOUS QUALITY PROBLEMS WITH AUDITS CONDUCTED AT SEVERAL LOCATIONS SIMULTANEOUSLY. THESE TYPE AUDITS HAVE THE GREATEST POTENTIAL FOR LARGE SAVINGS AND POTENTIAL NAVY-WIDE IMPACTS. FOR EXAMPLE, THESE PROBLEMS INCLUDED INCONSISTENCIES BETWEEN AUDIT REPORTS ISSUED TO COMMANDERS AT INDIVIDUAL AUDIT SITES AND SUMMARY REPORT ISSUED TO THE NAVY SECRETARIAT.

YOUR REPORT STATES THAT 66% OF YOUR RESOURCES WERE DEVOTED TO AUDITS OF THIS TYPE IN 1988. WHAT CHANGES HAVE YOU MADE IN YOUR OPERATION TO ENSURE CONSISTENCY IN THE CONDUCT AND REPORTING OF THESE AUDITS?

AUDITOR GENERAL OF THE NAVY RESPONSE:

The audits referred to in the GAO report were a variation of the multilocation auditing concept referred to by the Naval Audit Service as concurrent audits. Essentially, these were independent single location audits following the same audit program. After completion of the individual audits, one audit site would attempt to develop a summary report based on the results of the individual audit reports. As a result of the GAO review and our own analysis of concurrent audit performance, we discontinued initiation of this type of audit in 1986.

In 1988, the Naval Audit Service devoted 66% of our total resources to Department of the Navy programs which had the greatest potential for monetary benefit and Navy-wide impact. The management responsibility for each audit was assigned to a specific supervisory auditor. Many of these audits were performed by dedicated teams, which ensured consistent audit coverage at each location audited. Those audits that did not have dedicated resources relied on audit resources available at other audit locations, known as assist sites. The Auditor-in-Charge of the effort was responsible for the supervision of work performed by these assist sites to ensure consistency.

Each audit produces one audit report, which addresses all significant deficiencies identified during the audit. The report is addressed to the appropriate echelon of command having authority to correct the deficiencies.

QUESTION 5:

THE CONGRESS AUTHORIZED AND APPROPRIATED $26 MILLION FOR NAVAL AUDIT LAST YEAR. THE RATIONALE WAS FAIRLY SIMPLE, THE ORGANIZATION WAS IN SUCH DISARRAY THAT FUNDING INCREASES WERE NOT APPROPRIATE.

IN LOOKING AT THE 1990 SUBMISSION THE NAVY HAS APPARENTLY RESTORED $2 MILLION IN 1989 AND IS REQUESTING A LARGE INCREASE IN 1990. PLEASE EXPLAIN THE FUNDING LEVEL IN 1989, THE REQUEST FOR 1990 AND WHY THE CONGRESS WAS NOT NOTIFIED OF THE NAVY DECISION TO IGNORE THE CONGRESSIONAL REDUCTION IN 1989.

AUDITOR GENERAL OF THE NAVY RESPONSE:

Initially, I will address the funding level in FY 1989 and the basis for the larger request for FY 1990.

The Naval Audit Service currently has 582 civilian personnel onboard compared to the budgeted end strength of 593 personnel. The FY 1989 budget of $28.67 million, given fact-of-life changes and the need to execute a balanced program, is not adequate to allow us to achieve the targeted end strength in an orderly manner. It does, however, provide us with sufficient resources to sustain the level of effort achieved in FY 1987. This appeared to be the Committee's intent based on information available to us last year.

Given the current funding level, the Naval Audit Service is methodically overcoming the deficiencies addressed by GAO, DODIG, and the Congress. Our overall personnel situation has stabilized. Travel funds are less than desired, but are being utilized effectively to generate an increasing number of audits with significant monetary benefits and efficiencies. Training funds are being targeted for mission essential training in support of the Annual Audit Plan. Our purchase of microcomputers is being minimized, but our situation is significantly better than that which existed a year ago. In short, the Naval Audit Service is continually becoming more productive, efficient, and effective even in an austere funding environment.

The FY 1990 request ($30.42 million) is $1.74 million higher than the FY 1989 budget. Most of this increase is required for salaries. The Naval Audit Service has had to assume the cost ($0.1 million) of the Office of Personnel Management decision to increase the pay scale for auditors in grades 5/7/9, and to accommodate the cost ($0.3 million) of converting the four regional director positions from military billets to civilian. Additionally, $0.7 million is required to offset the cost in FY 1990 of the FY 1989/FY 1990 pay raises.

In essence, the requested funds should allow us to achieve the budgeted end strength justified by our position management structure. Additionally, the available travel funds would be sufficient to support multi-location, program audits; to train more people and to expand the training opportunities available (especially for current and potential supervisors); and, to sustain our commitment to make microcomputers available for auditors in the field.

The second portion of the question is why the Congress was not notified of the Navy decision to ignore the Congressional reduction in FY 1989.

As reflected in the FY 1990/FY 1991 Biennial Budget, and in accordance with congressional action, a $2.0 million reduction was applied to the Naval Audit Service in FY 1989. This effectively reduced the FY 1989 real program to levels below actual FY 1987 experience. Since the intent of the reduction was to return the Naval Audit Service real program to FY 1987 levels, the Navy funded fact-of-life pricing adjustments for FY 1988/FY 1989 pay raises ($1.4 million) and inflation ($0.1 million). Further, in response to Congressional recommendations that the Naval Audit Service efforts be redirected toward program-results auditing, the Navy provided the resources ($0.5 million) needed to finance the additional costs associated with these multi-location audits. Since the Navy was not aware that the $2.0 million reduction represented a spending limitation, the Congress was not notified of these adjustments.

The FY 1990 budget request reflects increases associated with pricing adjustments ($0.9 million), additional travel required to perform program-results audits ($0.4 million) and the cost of replacing military regional directors with civilians ($0.4 million), as directed by the Congress.

QUESTION 6:

WE REVIEWED SOME OF THE RECENT AUDIT REPORTS THAT YOU PUBLISHED AND THE AUDITS CONTINUE TO BE PLAGUED WITH TIMELINESS PROBLEMS. SOME AUDITS CONTINUE TO TAKE OVER TWO YEARS TO BE PUBLISHED. WHAT ARE YOU DOING TO REDUCE THE AUDIT CYCLE TIME SO THAT REPORTS ARE ISSUED WHILE THEY ARE STILL MEANINGFUL?

AUDITOR GENERAL OF THE NAVY RESPONSE:

Timeliness of published audit reports has been and continues to be a challenge. The conventional audit cycle consists of several separate phases: survey verification, utilization, and publication. Our transition from simpler single activity audits to more complex audits of significant Navy programs has resulted in a general increase in the size of our audits. While we attempt to limit the scope of individual audits, some significant programs can only be effectively audited in their entirety and these result in significant expenditures of time and resources. Additionally, individual reports contain recommendations to a number of different commands which complicates the utilization phase. Given these conditions, we have taken the following actions to reduce the audit cycle time.

- Audit draft reports are simultaneously utilized at the highest command levels in order to focus high level management attention on significant issues. Separate utilization at each command level had been a significant cause of delays in the utilization phase.

- Significant and time-sensitive matters are brought to management's attention through interim (or quick reaction) reporting of individual findings. This process has proven especially effective in obtaining management review and action on significant issues as the audit progresses. Consequently, by the time the audit is actually published management has taken action to correct the problem.

- Reductions in the span of control of our audit supervisors and managers permits them to concentrate more of their efforts on timely publication of audit results. One chronic cause of utilization and publication phase delays has been the extent of simultaneous involvement in multiple audits by these individuals.

- Increased research effort on potential audit topics, prior to inclusion in our annual audit plan, is reducing the less productive learning curve time expended in complex program areas. Similar efficiencies have been achieved through the selective use of technical experts.

- Increased use of microcomputers is improving our efficiency in labor-intensive and time-consuming areas. One example of this is our testing of a hand-held optical scanner to convert hard copy data to a computer readable format for use in analyzing inventory data.

- Concurrent review of audit findings and reports by Regional and Headquarters personnel is reducing delays which occurred in each phase of the audit cycle. Headquarters personnel are becoming involved earlier in the audit through on-site reviews of ongoing audits.

- A Productivity Improvement Program has been established to measure the effectiveness and efficiency of Naval Audit Service operations.

In summary, we are aware of the problem. We've taken measures to acquire improvements. We must now manage the process to achieve the desired results.

QUESTION 7:

WE HAVE REVIEWED A NUMBER OF THE RECENT NAS REPORTS AND FIND REPEATED DELAYS CAUSED BY WAITING FOR MANAGEMENT TO COMMENT ON AUDIT FINDINGS. SOME REPORTS ARE DELAYED BY OVER SIX MONTHS. --THE STANDARD POLICY IN MOST AUDIT ORGANIZATIONS IS TO GIVE MANAGEMENT 30 DAYS TO COMMENT AND THEN PUBLISH THE REPORT. WHAT IS YOUR POLICY ON THIS AND WHAT ARE YOU DOING TO REDUCE THESE DELAYS?

AUDITOR GENERAL OF THE NAVY RESPONSE:

Naval Audit Service policy is that generally responses will be requested within 30 days of issuance of the draft report, although a longer response period may be set for especially complex audits. Regional offices have the authority to grant one extension of not more than 15 days beyond the initial requested response date. Further extensions require Naval Audit Service Headquarters approval and must be fully justified.

We are taking action to reduce delays in receiving management comments by increased briefing of significant findings to management during the earlier stages of the audit, earlier involvement of Headquarters personnel in obtaining major command responses, and simultaneous utilization of all draft reports to two levels above the recommendation addressees.

I am convinced that in many instances the initial finding must be substantially rewritten given the additional information provided by the manager once the finding has been utilized. Deming, a noted productivity expert, refers to this as rework and argues that the manager must place emphasis in quality of product throughout each phase of the production function to ultimately realize desired efficiencies. Our efforts to share information with managers throughout the process and to provide ongoing oversight and support to the auditors during conduct of the audit is now giving us the confidence to publish reports without management input. Our audit on the Standard Automated Financial System (STAFS) is the most recent example of this. In short, if management doesn't respond we will publish unless we are confident that we need the response to ensure quality of product.

QUESTION 8:

YOUR REPORT SHOWS THAT UNSCHEDULED AUDITS INCREASED IN 1988 TO 45% COMPARED TO 19% IN 1986. PLEASE EXPLAIN THIS INCREASE IN UNSCHEDULED AUDITS AND DESCRIBE WHAT THIS WORKLOAD MEANS TO YOUR ANNUAL WORKPLAN?

AUDITOR GENERAL OF THE NAVY RESPONSE:

The Naval Audit Service Annual Audit Plan identifies a portion of the total resources available to each audit location as unscheduled. The unscheduled resources are set aside to accommodate investigative assist requests, command request audits, commercial activity reviews, assist requests from other audit organizations, and audit research for future audit plans. This information you present is taken from the graph on page 9 of our report. The subsequent graphs must be considered to bring our response into perspective. The total resources set aside for these efforts have decreased from 20% in 1986 to 18% in 1989 and the actual hours invested between 1986 and 1988 remained constant at 21%. The increase in the total number of published reports in the unscheduled category from 19% in 1986 to 45% in 1988 was primarily due to the total number of reports published decreasing while the unscheduled reports remained relatively constant thus causing the percentage of unscheduled audits to be higher. This was directly related to the change in our audit emphasis. In 1986, the majority of all audits published were single location activity audits. These audits did not require large amounts of resources to accomplish; therefore, we could complete more. In 1988, the typical audit published was a Navy-wide program audit which required significantly more resources to accomplish, therefore fewer audits were published.

QUESTION 9:

ONE MEMBER RAISED THE ISSUE OF DISCIPLINARY ACTION AGAINST NAS MEMBERS ESPECIALLY SUPERVISORS WHO CONTRIBUTED TO THE PROBLEMS FOUND BY GAO AND THE DODIG. YOUR RESPONSE WAS THAT YOU HAD TO DEVELOP A PERSONNEL SYSTEM, PROVIDE TRAINING AND THEN YOU COULD ASSESS WHETHER SUPERVISORS WILL PERFORM OR BE REMOVED FOR CAUSE. YOUR REPORT IGNORES THE DISCIPLINARY ASPECTS AND TALKS ONLY OF SUBMITTING QUALITY CONTROL REPORTS TO THE DODIG.

I FAIL TO SEE HOW THAT IS CONNECTED. PLEASE UPDATE US ON WHAT HAS HAPPENED TO HOLD YOUR SUPERVISORS RESPONSIBLE AND PROVIDE EXAMPLES OF WHERE DISCIPLINARY ACTION HAS BEEN TAKEN.

AUDITOR GENERAL OF THE NAVY RESPONSE:

The Quality Control review constitutes a peer review of an individual audit manager's ongoing performance during the conduct of an audit. When the review team is finished it provides a report for AUDGENAV signature. That report directs the audit manager to correct cited deficiencies before that audit is published. DODIG comes in after the report is published and if they ascertain that the deficiencies originally cited were not corrected then that audit manager will be removed from his supervisory position and serve as an auditor for a specified period. To date we have completed four of these Quality Control Reviews. This initiative has done more to tighten management controls and influence the cultural attitude of our organization than any other action to date.

Additionally, we have raised our performance standards and are more stringently evaluating performance. As a consequence of our increased attention to this area at least two audit managers have been downgraded. Others were provided one-on-one supervisory training and two others were provided formal supervisory training to improve their skills. Other actions are being taken throughout the system to enforce proper supervision. These actions are affecting performance ratings and, when initially implemented, contributed to a rather high rate of personnel attrition. This year, however, the impression is that we are experiencing improved results. DODIG will undoubtedly address this issue as a consequence of their current review efforts. We intend to continue emphasis in this area.

QUESTION 10:

YOUR REPORT MENTIONS THAT RECENT WORKLOAD TRENDS PORTEND THAT A LARGER SEGMENT OF THE AUDITORS WILL BE FOCUSING ON ASSIGNMENTS THAT HAVE A LOW PROBABILITY OF DEVELOPING LARGE RETURNS FOR YOUR AUDITING DOLLAR.

PLEASE EXPLAIN WHY YOUR WORKLOAD IS TRENDING TOWARD THE MARGINAL AUDITS AND WHAT YOU CAN DO TO REVERSE THIS COURSE.

AUDITOR GENERAL OF THE NAVY RESPONSE:

The primary mission of the Naval Audit Service is to perform audits of Department of the Navy organizations, programs, activities, systems, functions, and funds. The Naval Audit Service also performs several other functions which impact on the availability of audit resources to satisfy its primary mission.

We are responsible for performing quality assurance reviews on other Department of the Navy activities performing an audit function, such as nonappropriated fund activity auditors. This ensures the adequacy of their reviews but does not lend itself to the identification of potential monetary benefits.

Other requirements placed on the Audit Service include supporting the Naval Inspector General in executing the Navy Audit Follow-up Program, evaluating all phases of contracted audit services, and providing audit assistance to the Naval Investigative Service Command. These efforts are necessary and important to the Department of the Navy, but are not likely to identify potential monetary benefits.

In addition, the Naval Audit Service is required to perform several types of audit which are beneficial to the Department of the Navy but do not generate potential monetary benefits. These include commercial activity cost comparison reviews, internal control audits, and accounting systems audits.

There is a potential for additional audit requirements of this nature in light of the Department of the Navy's disestablishment of its Internal Review Program. Further requirements may develop if Congress legislates the requirement to audit financial statements provided to Treasury, and if DODIG requires additional effort on our part to oversee the conduct of non-federal auditors. Our impression is that the trend is for more auditing in these areas. As it materializes, given a no growth environment, our only alternative is to divert resources from areas of audit that project high return on investment to those other compliance-type auditing efforts.

The Naval Audit Service believes these other responsibilities are important. We would hope to be able to apply discretionary judgment as to whether they should be pursued. We do evaluate each requirement to ensure our resource expenditures are warranted prior to committing our auditors to the effort.

QUESTION 11:

ONE OF THE COMMITTEE'S CONCERNS LAST YEAR WAS THAT THE NAVY WAS TREATING THE AUDITOR GENERAL POSITION AS ONE OF ITS SENIOR EXECUTIVE SERVICE ROTATING POSITIONS, WHERE PERSONS WITHOUT AUDIT EXPERIENCE WOULD MOVE IN AND OUT OF THIS POSITION.

WHAT IS THE NAVY'S CURRENT PLAN FOR THIS POSITION?

AUDITOR GENERAL OF THE NAVY RESPONSE:

The Department of the Navy disestablished its formal SES rotation program. Current individuals in such positions are encouraged to move for career development purposes but the intent is to accomplish such an objective as a mutual decision on the part of the individual and management. At present I have no immediate desire to vacate this position.

QUESTION 12:

YOUR REPORT MENTIONS THAT AUDITORS IN SENIOR EXECUTIVE SERVICE POSITIONS CAN NOW BE CONSIDERED FOR BONUSES. PLEASE EXPLAIN THIS PROCESS AND HOW MANY SES POSITIONS THERE ARE IN NAVAL AUDIT.

AUDITOR GENERAL OF THE NAVY RESPONSE:

There are now five Senior Executive Service positions within the Naval Audit community. With regard to their annual performance bonus potential, I make recommendations concerning individual SES employee performance to a Department of the Navy Performance Review Board. That Board considers such recommendations of all individuals in SES positions within the Department of the Navy Secretariat. The Board basically determines which individuals are awarded a performance bonus. The system provides additional flexibility for the Under Secretary of the Navy to deviate from the Board's recommendations when he deems it appropriate.

QUESTION 13:

AT LAST YEAR'S HEARING WE FOUND THAT THE NUMBER OF AUDITS PUBLISHED HAD DECREASED BY 50% IN 1986 AND 1987. WHAT WERE THE RESULTS FOR 1988 AND COMPARE THAT TO 1985/6/7? WHAT IS FORECASTED FOR 1989? LAST YEAR THE IG ALSO FOUND THAT HALF OF NAVY AUDIT REPORTS DID NOT CONTAIN ANY RECOMMENDATIONS. PLEASE UPDATE US ON IMPROVEMENTS IN THIS AREA.

AUDITOR GENERAL OF THE NAVY RESPONSE:

The number of audits published has continued to decrease as we transition to more complex program audits. Comparative data for FY 1985 through the first half of FY 1989 shows this decrease in the number of reports.

Fiscal Year	Reports	Monetary Benefits (Millions)
1985	319	$ 6.0
1986	281	981.4
1987	193	280.9
1988	160	996.0
1989(1st half)	50	345.6

We estimate that in the second half of FY 1989 we will publish 38 additional reports with claimed monetary benefits of over $600 million.

The IG finding that half of Naval Audit Service reports did not contain any recommendations was based on a non-statistically derived sample of FY 1986/FY 1987 reports. The sample included Commercial Activity Reviews we conduct which result in letter reports without findings, command requests, and concurrent audits. We no longer perform command requests and concurrent audits. The FY 1988 total of 160 reports published included 35 letter reports which normally contained no recommendations. In addition to Commercial Activity Reviews, letter reports result from audits with no material findings and termination of audits when significant events or management actions have obviated the need for an audit.

QUESTION 14:

YOU STATED THAT THE GENERAL ACCOUNTING OFFICE IDENTIFIED A NEED TO IMPROVE THE DEGREE OF SUPERVISION APPLIED DURING AUDITS, AND THAT, IN LARGE PART, THIS FINDING RESULTED FROM AUDITOR'S INABILITY TO DOCUMENT SUPERVISION. HOWEVER, MANY OF THE PROBLEMS GAO AND THE DODIG REPORTED RELATED DIRECTLY TO THE QUALITY OF SUPERVISION.

GAO AND THE DODIG RECOMMENDED SUPERVISORY TRAINING AS ONE MEANS OF CORRECTING THIS DEFICIENCY. HOWEVER, YOU RESPONDED TO THE GAO REPORT THAT RATHER THAN PROVIDE ACROSS THE BOARD TRAINING TO ALL SUPERVISORS, YOU WOULD PREFER TRAINING FOR ONLY THOSE INDIVIDUALS IDENTIFIED AS NEEDING THE TRAINING.

YOU STATE TODAY THAT POLICY CHANGES, TRAINING AND AN EFFECTIVE EVALUATION SYSTEM ARE BEGINNING TO OVERCOME THE SUPERVISORY DEFICIENCIES. HOW MANY SUPERVISORS HAVE BEEN IDENTIFIED AS SPECIFICALLY NEEDING ADDITIONAL TRAINING IN SUPERVISORY SKILLS? DID THESE INDIVIDUALS ACTUALLY RECEIVE LESS THAN SATISFACTORY PERFORMANCE RATINGS?

AUDITOR GENERAL OF THE NAVY RESPONSE:

Since last year's hearings, at least 5 supervisors were referred for supplemental supervisory training based solely on exhibiting inadequate supervisory techniques. All of their performance ratings were affected. This does not tell the whole story with regard to supervisory training.

Annually, individual supervisory development training requirements are identified using the internal Training Needs Survey. The results of this survey provides the following:

- Supervisory skills development training (for new supervisors) as specified by the Office of Personnel Management and Department of the Navy regulations.
- Additional supervisory skills development training needed to improve, enhance, or correct performance. These training needs are identified through the performance evaluation process.

During Fiscal Years 1986 - 1988, 250 auditors received training in supervisory skills development. This investment represented 6,914 auditor hours or approximately 28 hours per auditor trained. We intend to continue to emphasize this area.

QUESTION 15:

DURING THE FEBRUARY 1988 HEARINGS IT WAS DISCLOSED THAT THE NAVAL AUDIT SERVICE DID NOT INCLUDE SHIPS IN ITS LISTING OF

NAVY ACTIVITIES TO BE AUDITED. HAS THE AUDIT SERVICE ADDED ALL NAVY SHIPS TO ITS FILE OF ACTIVITIES SUBJECT TO AUDIT AND HOW MANY AUDITS HAVE BEEN DONE, OR STARTED, DURING 1988 OF SHIPBOARD OPERATIONS?

AUDITOR GENERAL OF THE NAVY RESPONSE:

The "listing of Navy activities to be audited" or audit inventory is no longer used in planning our audits. As we indicated last year the Naval Audit Service has discontinued the "activity audit approach" and has transitioned to performing audits of major programs and systems. The objectives of each audit are unique but include evaluating ~~the~~ economy and efficiency of operations as well as the extent to which budgeted program results are being achieved. This approach excludes no Naval ship, activity, system, or program from audit coverage. The locations to be reviewed are dictated by the program we are auditing, not by the fact that the ship, activity, system, or program is included in an audit inventory.

The Naval Audit Service has been performing audits which impact significantly on shipboard operations. Our audit planning process is constantly on the look for opportunities to audit aboard Naval ships, but to be included in our plan these audits must also provide the greatest possibility to improve Department of the Navy operations. The audits listed below are audits completed or started during 1988 and 1989 of shipboard operations and represent the type of audits we intend to pursue.

- Aviation Supply Management Aboard Carriers
- Ship's Stores Reaudit
- Implementation of the Navy's Ship Configuration and Logistics Support Control (SCLSC) System
- Type Commander Automated Information System
- Fleet Combat Direction System Support
- Intermediate Maintenance of Naval Surface Forces
- Manpower - Sea Intensive Ratings
- Metrology and Calibration
- Navy Service Craft
- Integrated Logistics Support Program Aboard SNAP-II Ships (Planned to start late FY 1989)

QUESTION 16:

YOUR REPORT LISTS A NUMBER OF PLANNED AND ONGOING QUALITY REVIEWS BY THE DODIG. DO YOU BELIEVE THIS NUMBER IS EXCESSIVE AND HAVE YOU EARNED A "COOLING OFF" PERIOD TO THESE OUTSIDE EVALUATIONS?

AUDITOR GENERAL OF THE NAVY RESPONSE:

Independent quality assurance reviews by the DOD Inspector General provide an unbiased look at the operation of Naval Audit Service and assist in maintaining an effective internal audit function within the Department of the Navy. They have been invaluable in helping us improve, and should continue.

Mr. HUTTO. The subcommittee stands adjourned until 1:30 tomorrow afternoon.

[Whereupon, at 12 noon, the subcommittee adjourned, to reconvene tomorrow afternoon, Thursday, March 9, 1989, at 1:30 p.m.]

AIR FORCE GUARD AND RESERVE AND NAVY/MARINE CORPS GUARD AND RESERVE

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Thursday, March 9, 1989.

The subcommittee met, pursuant to notice, at 1:34 p.m., in room 2212, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. **Hutto.** The Subcommittee on Readiness will come to order. This afternoon the subcommittee will continue its consideration of the fiscal years 1990–1991 Department of Defense Operation and Maintenance budget request. Testimony will be received from guard and reserve officials of the Air Force, Navy and Marine Corps.

As we all know, the guard and reserve forces have been assigned a greater and increased role in national defense. These organizations are vital components of our national military capability. The term "total force" has never been more meaningful nor apply to more of our citizen soldiers than it does today.

There are proposals currently being considered that would further increase the responsibilities of the guard and reserve. The primary purpose of today's hearing is to determine as best we can that the reserves and guard have the personnel, equipment and training to perform existing missions and to obtain their views as to what new missions might be appropriate.

At this time I would ask that a statement by Mr. Kasich, our ranking member of this subcommittee be entered into the record. Without objection that will be done.

Prepared Statement of Hon. John R. Kasich, a Representative From Ohio, Ranking Minority Member, Readiness Subcommittee

Thank you, Mr. Chairman. I would like to welcome our panel of witnesses from the Air Force, Navy, and Marine Corps Guard and Reserve Components. We will continue our series of hearings on the readiness of these forces, and the adequacy of the fiscal year 1990 budget request.

Mr. Chairman, 2 weeks ago we heard testimony concerning Army guard and reserve readiness from the General Accounting Office that painted a rather grim picture. DOD and Army representatives, on the other hand, were far more optimistic about the capability of those forces. The problem for the subcommittee was in balancing these conflicting opinions.

I hope today's witnesses will tell us in all candor whether they have the capability to perform the existing mission, and what they think of proposals to increase guard and reserve missions. As we all know, projected budget difficulties have given rise to suggestions to move more missions into the guard and reserve. We need to know whether that is realistic.

Thank you, Mr. Chairman.

We're privileged to have two Air Force witnesses with us this afternoon. First we will hear from Maj. Gen. Roger P. Scheer, who is the Chief of Air Force Reserve. Second we will hear from Brig. Gen. Philip G. Killey who is the Director of the Air National Guard. A warm welcome to both of you. General Scheer, you may proceed as you desire.

STATEMENT OF MAJ. GEN. ROGER P. SCHEER, CHIEF, AIR FORCE RESERVE

General **Scheer**. Thank you, Mr. Chairman. I'd like to begin by thanking you for the opportunity to appear before your subcommittee and talk about our readiness issues. Particularly I'd like to congratulate you, sir, on your acceptance as Chairman of this distinguished subcommittee and I know that you will get all the help from the reserve forces that you can ask for.

Mr. **Hutto**. Thank you sir, I appreciate it.

Gen. **Scheer**. We can begin by stating this year, the same as we did last year, that our readiness is again at an all time high. A brief recap would show that all flying units except those in conversion status are combat ready and over 90 percent of our non-flying units. In the non-flying unit category, readiness is up from 71 percent combat ready only 4 years ago. I think another key area—not only are these units ready, but they're ready with very, very modern equipment. This modernization has continued, will continue and we are rapidly approaching the point where all our units are equipped with like, modern weapons systems like those of the active.

This readiness has been a team effort, particularly between the Congress, the Air Force, the reservist himself and the employers. Congress and the Air Force provided modern equipment, substantive missions and realistic training. The employer has helped in this by allowing our reservists to participate in rates far in excess of the minimum requirements. Retention, too, is at an all time high, and this is perhaps more important than the recruiting aspect. Retention, again, increased approximately 4 percent this year over last year. A big portion of that has got to be not only the modernization but the realistic missions, the realistic training and the degree of responsibility that has been placed on the reservist by Congress and the Air Force.

I would say that looking down the road there are some negatives, obviously, to future readiness. We are experiencing some difficultly in our full-time pilot technician force, similar to the active experience in pilot retention, not to the same extent yet, but certainly it's significant. Civil service compensation has not kept pace with any pay, not even the military pay, and that has drastically reduced our recruiting efforts with our full-time pilots.

We are looking at every way possible that we can enhance not only the recruiting, but the retention of this valuable force. We have seen a decrease in our real O&M budget for 1990, real decrease of about 7½ percent in 1990 over 1989. That certainly will impact readiness and is not compatible with the ever increasing requirements that are being placed upon us.

But all in all I would like to report that you do have a ready Air Force Reserve. Ready by the same standards as the active force. Again we want to thank Congress, and in particular your committee, Mr. Chairman, for the support that has directly provided us this degree of readiness, and I can guarantee you that we will extend every effort possible to effectively employ those assets. Thank you.

PREPARED STATEMENT OF MAJ. GEN. ROGER P. SCHEER

INTRODUCTION

Thank you for the opportunity to appear before this Subcommittee on Readiness and share with you the current status of the Air Force Reserve, the challenges we face, and the accomplishments we have made during the past year. Our Reserve units are combat ready. They can be mobilized in 24 hours and deployed within 72 hours. In Fiscal Year (FY) 1988 we made significant improvements to the quality of our training and today are at the highest level of readiness in our history, with 97% of our units (excluding those in conversion) designated combat ready. This is up from 71% just 4 short years ago.

These readiness levels are a result of a team effort: The Congress, the Air Force, and the Reservist. By providing modern equipment, substantive missions and realistic training opportunities, the Congress and the Air Force have given the quality personnel of the Air Force Reserve the means and motivation to achieve these high levels of combat capability.

This next year presents a difficult fiscal challenge for our country and especially for the military establishment. In light of hard-hitting budget limitations, we must not allow current high readiness levels to erode. We can't let the gains of the past years slip away. Much has been written and spoken recently concerning major restructuring of the United States Air Force -- specifically, the increased transfer of missions to the Air Reserve Forces. We think the current force mix is about right. It provides an adequate pool of trained personnel to the Reserve forces without which we would be unable to maintain current readiness levels. If the Reserve forces were to significantly expand at the expense of active force levels, this pool of trained personnel would diminish to the point where, at some future date, it could be inadequate to meet Reserve manpower requirements. The untrained would then have to replace the trained, thus raising training costs and reducing readiness. Perhaps some fine tuning of the existing force is prudent, but we must not create the false perception that this country can be defended solely by a Reserve force.

To meet the demand of providing the strongest defense for the dollar, we must continue to attract and retain highly qualified, motivated people who demonstrate pride in their performance. At the same time, we must acquire the modern equipment and provide realistic training environments that will effectively challenge and use the talents of today's Reserve professionals.

PROGRAM CHANGES

Equipment Modernization

The primary goal of the Air Force Reserve is to sustain a superior combat ready force. Today, the Air Force is making great qualitative strides in this effort by providing our flying units with some of the newest, state-of-the-art aircraft in America's arsenal. The support Congress has given the Air Force has made these modernization efforts possible. We will do everything possible to ensure that the capabilities of these weapons systems are fully exploited.

We are continuing to upgrade our tactical fighter force in FY 1989 with the conversion of the F-4 units at Tinker AFB, Oklahoma and Homestead AFB, Florida to the F-16 aircraft. However, budget constraints and delays in upgrading active units to newer F-16C/Ds have slowed modernization of our fighter force at other Reserve locations. We now plan to complete F-4 unit conversion to F-16A/B at Wright-Patterson AFB, Ohio in early FY 90 and will similarly convert Carswell AFB and Bergstrom AFB, Texas in late FY 91. Any further reduction in planned active duty F-15 and F-16 procurement levels will extend our aging F-4s seriously affecting our war fighting capability.

This continuing modernization of our tactical fighter force with the F-16 brings a corresponding challenge to the Reserve as we prepare to meet the anticipated threat well into the 21st Century. We must now address the midlife upgrade of this aircraft while ensuring commonality with the active Air Force and our allies. We coordinate our efforts with the Air Force and NATO as an active member of the Multi-national Fighter Program.

Thanks to a Congressional add of C-130H aircraft in FY 88, the Air Force Reserve will retire its last C-130A tactical airlifter this year. The only C-130As remaining in the Reserve after this year are the dated gunships at Duke Field, Florida. The active Air Force procurement of the new AC-130U will release upgraded H-model gunships to replace those A-models. This replacement is critical as these 30-plus year old AC-130As offer only limited capability to the increasingly important special operations mission.

The Congressional add of six C-130H aircraft for FY 89 will allow us to convert six of eight C-130Bs at Youngstown, Ohio even sooner than we expected. As an added benefit, rather than an interim conversion of this unit to C-130E model aircraft as we had originally planned, we are now able to move directly to the C-130H. It has been our experience that eight Primary Assigned Aircraft (PAA) is the minimum number required for an efficient unit structure -- and we hope, with continued Congressional support, to eventually expand Youngstown to that size.

In the past year we acquired an increased strategic airlift capability at our unit-equipped C-141 and C-5 wings. The 459th Military Airlift Wing (MAW) at Andrews AFB, Maryland is fully converted to eight C-141B aircraft and the 433rd MAW at Kelly AFB, Texas completed its conversion from 16 C-130Es to 15 C-5As assigned as of December 1988. This year the 439th MAW at Westover AFB, Massachusetts has received the remainder of its 14 C-5s. We will continue this effort by replacing eight C-130E model aircraft at Rickenbacker ANGB, Ohio, with 12 C-141Bs, beginning in FY 91. These unit conversions allow us to operate and maintain valuable strategic airlift aircraft economically at a low peacetime tempo while maintaining a high wartime surge capability.

Another important airlift enhancement is the C-17A. The development of this aircraft will ensure a quantum leap forward for our nation's airlift capability. Its timely acquisition will provide a critical improvement in the ability of the Air Force to project conventional forces wherever they might be needed. As I indicated in my testimony last year, this is the first time in MAC's history that a production line strategic airlift aircraft is scheduled for a unit-equipped Reserve organization. Any stretching out of this program will have a ripple-down effect on overall Air Force Reserve modernization efforts. Delays in the delivery of C-17As to active units slow the subsequent transfer of their resources to and between Reserve units. We strongly urge this important program be kept on track.

We have been a full partner with the active Air Force in direct support of the strategic mission. Our KC-135E aerial refueling units at Grissom AFB, Indiana, and March AFB and Mather AFB, California will each receive 2 additional aircraft late in FY 90. This is the result of the deactivation of an active KC-135 unit. Congress has provided the funds to upgrade these KC-135As to the KC-135E configuration with the attendant significant increase in capability. The addition of these six aircraft will allow the Air Force Reserve to provide three added lines of alert.

Perhaps the Air Force Reserve's greatest challenge is to provide our personnel with state-of-the-art training programs. We must be able to meet the inevitable increase in future readiness goals without adding to our Reservists' already over-burdened participation requirements. These new programs include self-paced programmed instruction, part-task trainers, multi-media learning programs, and computer simulation. Congress has generously supported our past training requirements and we look forward to your continued support in the future.

Shortfalls

Our ability to successfully operate in a hostile environment remains one of the Air Force Reserve's highest priorities. To achieve this goal, we are buying electronic countermeasures pods for our fighters and defensive systems for our airlift force, made possible through the miscellaneous equipment funds provided by the Congress. Without this critical equipment, our tactical fighter and airlift units lack the capability to penetrate enemy defenses and survive.

This upgrade has been a very slow process. Our current program includes funds for only one-fourth of our fighter defensive system requirements. We must aggressively continue our efforts in this area if we are to provide our air crews creditable survivability.

Our tactical airlift aircraft may face the same hostile environment as our fighters. Today we are installing the first defensive system on a Reserve C-130 at Dobbins AFB, Georgia. This prototype is expected to demonstrate that a cost effective, off-the-shelf system can provide adequate, timely protection against most threats to our tactical airlifters. The importance of this effort cannot be understated. In December, while on a humanitarian aerial spray mission, two commercially chartered DC-7s were attacked in North Africa by heat-seeking missiles. Our C-130s, operating daily in Central and South America, could face a similar terrorist threat. We will continue a concerted effort to provide our crews the protection needed to complete their peacetime and wartime missions.

As a final note on shortfalls, we thank Congress for its addition last year of nine MH-60G helicopters to begin replacement of our outdated and virtually unsupportable HH-3 and HH-1 helicopters. Sixteen additional MH-60Gs are still required to replace our remaining older helicopters and provide our units with a viable rescue and special operations capability. Currently, this final upgrade is not scheduled until FY 95/96.

MANPOWER

As the members of this committee are aware, the Air Force Reserve has experienced significant mission growth over the past decade and a half. You have made this possible by providing the end-strength required to meet the associated wartime and contingency tasking responsibilities. The Air Force Reserve end-strength grew to 82,116 in FY 88, a total that has nearly doubled since 1973. Simultaneously, however, the ratio of full-time support (civilians and Air Reserve Technicians) to Reserve unit end-strength actually declined from 25 to 20 percent. Budget restrictions have prevented full-time support and management requirements from keeping pace with Reserve end-strength increases. Additionally, the Goldwater-Nichols DoD Reorganization Act imposed growth restrictions on Reserve management headquarters. The combination of these two factors jeopardizes our ability to provide adequate support to our field units in the face of increasing readiness requirements.

Personnel Legislation

In the area of legislation, recent Congressional action has had a significant, positive effect on retention and the quality of life of our force. Last year's extension and enhancement of the

Montgomery GI Bill is but one of those important pieces of legislation.

However, the progress of one legislative proposal was not as successful. Specifically, the Reserve Officers Personnel Management Act (ROPMA) was introduced to the 100th Congress with no resultant legislation. When Congress initiated the Defense Officers Personnel Management Act in 1981, it directed similar legislation for the Reserve components. We ask that you consider and adopt the major provisions of ROPMA when it is submitted again during this session.

Recruiting and Retention

The Reserve recruiting structure continues to achieve exceptional results. Our Air Force Reserve Recruiting Service is unique as it maintains its own offices collocated with Reserve units across the country, targeting a primarily "hometown" market. This "organic" recruiting structure is essential to the Air Force Reserve if we are to successfully meet future requirements.

Our recruiters are finding an extremely high caliber of people: 99 % of our non-prior service enlistees are high school or equivalent graduates while 77% of all recruits are trained, prior service members. Retention is also up in FY 88. We had a reenlistment rate of 87% for non-prior service and 92% for our prior service members. Continued improvement in this area is a major goal for 1989.

This recruiting and retention success, combined with our high participation rate - 98% for officers and 95% for enlisted members in FY 88 - allows us to maintain a motivated, top quality force. Perhaps one of the best examples of this quality force was the selection of CMSgt Roy Arakaki as one of the 12 Outstanding Airmen of the Year in the entire Air Force for 1988. A chief of loadmaster standardization and evaluation at the 445th Military Airlift Wing (MAW), Norton AFB, California, Chief Arakaki is a shining example of the citizen airmen who make up the Air Force Reserve.

While we have had significant recruiting successes, I would be remiss if I did not point out the difficulty we are facing in our Air Reserve Technician (ART) manning. The Air Reserve Technician continues to be the backbone of our Reserve unit program. Unfortunately, ART recruiting has lagged over the past five years, primarily because Civil Service compensation has fallen far behind the private sector. With the continuing high-level of airline hiring, we anticipate this situation will only get worse -- especially in our pilot and aircraft maintenance areas. We ask the Congress to address these inequities in Civil Service compensation.

Medical Readiness

The Air Force Reserve has made consistent strides in medical readiness and our manning in this area continues to improve. Again, we owe a great deal of this success to strong Congressional leadership and support for medical recruiting and retention. Our medical stipend program is operational, and we expect it to help fill critical physician vacancies. By raising the maximum age for initial medical appointment and the maximum age for retirement, we are now able to recruit to a broader physician base. Additionally, the accession bonus program for critical skills will be operational by 1 April. To take full advantage of these tools, we plan to increase the number of dedicated medical recruiters.

As I reported last year, in response to the 1987 Defense Authorization Bill, we continue to expand our involvement in the Combat Casualty Care Course (C-4) and readiness training for all medical disciplines. Our efforts are aimed at offering well qualified medical professionals purposeful and applicable training. On the down side, however, we have only 88% of the physicians and nurses we need -- a shortage of approximately 90 and 260 respectively. We are confident that existing incentive and bonus programs will help us to meet our physician goals, but the outlook for nurses is cloudy. Although the Reserve is having difficulty competing with opportunities provided by the private sector, we are leaving no stone unturned in our effort to reverse this situation.

Exercises

The Individual Ready Reserve (IRR) is a manpower pool of individuals who have had previous military training (either on active duty or in the Selected Reserve) and have a remaining military service obligation. These members are not assigned to units and have no participation obligation. However, they may voluntarily participate in certain types of training.

In order to assess this manpower resource, the Secretary of Defense mandated the services to order IRR members to one day of active duty each year during the period of FY 1987-1992. In 1989, we plan to conduct this screening in a manner similar to the actual process that would be used during mobilization. Under this concept, we will identify selected members of the IRR with critical specialties and move them to a technical training center for processing. We will then evaluate their skill retention, identify follow-on training requirements, and simulate assignment actions based on anticipated manning requirements. This test will provide an excellent assessment of the actual backfill capability of this important mobilization resource.

We test our units as well to determine their capabilities. Last year the Air Force Reserve played a significant role in both Joint Chiefs of Staff (JCS) and Air Force exercise programs. Not only did 44 of our 58 flying units participate, but so did 172 combat support and combat service support units. Perhaps less visible than the flyers, our aerial ports, aeromedical and medical, enroute maintenance, communications and engineering teams truly make these exercises meaningful and realistic. Over 30,000 Reservists participated in FY 88 exercises which included VOLANT OAK and AHUAS TARA in Central America, DISPLAY DETERMINATION in Europe, and TEAM SPIRIT in the Pacific.

OPERATIONAL ACHIEVEMENTS

Air Force Reserve flying units logged more than 223,000 hours in FY 88, flying unit-equipped and associate strategic airlift, tactical airlift, fighter, rescue and tanker aircraft. Our flying is not limited to local training missions. In quantitative terms, the by-product of our world-wide Reserve contribution to MAC is impressive. MAC-gained units flew in excess of 140,000 hours in FY 88. Our Reserve tactical airlift was responsible for deploying 32,000 troops (airdropping 16,000) and 4,000 tons of cargo (airdropping 500 tons). We continue to play an important role in REFORGER in Europe. Reserve crews and aircraft were even called upon to transport Intermediate Nuclear Forces (INF) Treaty verification teams to Moscow.

The Air Force Reserve, in conjunction with the Air National Guard, continues to maintain a year-round rotation in Panama in direct support of United States Southern Command (USSOUTHCOM) with six C-130s, seven aircrews, and 60 support personnel. Last year VOLANT OAK crews flew 331 missions carrying over 10,000 passengers and over 2500 tons of cargo. A significant portion of this effort was in support of USSOUTHCOM's "Good Neighbor Programs."

In the area of competitions, a Reserve crew commanded by Lt Col Ken McKibban was selected as the "Best KC-10 Crew" during the 1988 SAC Bombing and Navigation Competition. Assigned to the 452nd Air Refueling Wing (AREFW), March AFB, California, the crew amassed an impressive score of 98.55 out of a possible 100 points.

In March of last year, a Reserve crew from the 459th MAW, Andrews AFB, Maryland, responded to an urgent request to support the deployment of the 82nd Airborne Division into Honduras. This Reserve crew, commanded by Major Tom Carter, flew the first aircraft into Palmerola Air Base, Honduras, in support of JCS Exercise "GOLDEN PHEASANT."

Crews from six Reserve units supported a critical UN Peacekeeping deployment to Iraq in August of 1988. Known as "OPERATION POST ROAD," we lifted 316 tons of cargo and 170 passengers during this deployment.

In conjunction with proficiency training, our flying units are often requested to provide a variety of humanitarian services. Air Force Reserve units were credited with saving 49 lives in FY 88 while performing over 100 search and rescue missions. During 1988, we transported over 880,000 pounds of humanitarian relief supplies, including 66,000 pounds of life-saving cargo to Jamaica after last year's devastating hurricane.

Most recently, Reserve crews from, Andrews AFB, Maryland, Westover AFB, Massachusetts, and Kelly AFB, Texas were instrumental in flying emergency missions to support the Armenian earthquake relief effort. Our crews became ambassadors of goodwill as they provided vitally needed supplies to survivors of this tragedy.

When we think of the Air Force Reserve, we normally focus on our unit program. It is important to remember that we also have over 12,000 highly trained Individual Mobilization Augmentees (IMAs) who work directly with their active duty counterparts. As but one example of the contributions these IMAs make, the Air Force Systems Command has documented over $178 million in cost savings since 1982 directly attributed to the efforts of their assigned IMAs.

Unique Reserve Missions

The Air Force Reserve has several unique missions. We provide 100% of the DoD fixed-wing, large area aerial spray capability. Additionally, along with the Air National Guard, we provide 100% of the Air Force augmentation to the airborne fire fighting effort of the US Forestry Service. In support of this mission, the 943rd TAG from March AFB, California dropped over 498,000 gallons of fire retardant during 166 missions as they helped firefighters battle the raging forest fires in our western states this past year.

APPROPRIATIONS

The Air Force Reserve is programmed for 177 mission support and 58 flying units in FY 90. The Air Force Operation and Maintenance (O&M) appropriation provides for the day-to-day operating expenses of Reserve bases and units. It includes civilian personnel pay, aviation and ground fuels, depot maintenance, real property maintenance, and supplies. This appropriation decreases in FY 90 by $64.1 million, a program reduction of 7.5%.

The O&M increases in FY 90 occur primarily in F-16 Tactical Fighters ($17 million), KC-135 robusting ($3.2 million), and price growth ($16.6 million). Major program reductions include C-130 Tactical Airlift (-$9.7 million); C-141 associate proficiency sortie flying hours (-$7.5 million); C-5 associate proficiency sortie flying hours (-$6.7 million); and civilian workyear levels and contract funding for maintenance and repair of facilities (-$12.3 million). The depot maintenance program drops $33.8 million while base operating support funding decreases by $2.1 million.

The Reserve Personnel, Air Force (RP,AF) appropriation provides for the pay and allowances of Reservists during training, while performing special tours of active duty, and while in school. It also includes funding for full-time Reservist support of the Reserve program as well as students participating in junior and senior Reserve Officer Training Corps (ROTC) programs and the Armed Forces Health Professions Scholarship program. This appropriation increases by $14.3 million in FY 90.

The RP,AF increases in FY 90 occur primarily in pay raises ($21.7 million), support for F-16 aircraft ($10.1 million) and support for KC-135 robusting ($2.5 million). Decreases occur primarily in revised retired pay accrual rates (-$46.9 million)

As a final observation on appropriations, the FY 90 budget request significantly reduces funding for military construction. Until the last few years, this program was considerably underfunded and did not allow for timely replacement and/or repair of World War II facilities. Although we are receiving our fair share to meet current construction requirements, we are not able to address the considerable backlog of facility requirements that resulted from previous shortfalls.

CONCLUSION

In summary, the combat readiness and war fighting capability of the Air Force Reserve are vital elements within the Total Force. Modernization and readiness training continue to be our primary concerns as we strive to maximize our ability to defend this nation during a time of reduced defense spending.

We are proud of what we have accomplished in 1988. We owe a special vote of thanks to our families and employers who supported the men and women of the Air Force Reserve and made their achievements possible. We heartily acknowledge the combined efforts of the Reservist, family, and civilian employer which enable us to provide our services to the Air Force and to our country. Without this teamwork, the absences from home and office, attendance at frequent training activities, and all-hour availability would be impossible to endure. Finally, the superb support Congress has seen fit to provide to Reservists, their families, and employers is essential, reassuring, and gratifying. I remain confident this momentum will prevail in the 101th Congress.

This concludes my prepared statement, Mister Chairman. I am ready to respond to your questions.

Mr. HUTTO. Thank you, sir. Your complete statement will be entered into the record. General Killey.

STATEMENT OF BRIG. GEN. PHILIP G. KILLEY, DIRECTOR, AIR NATIONAL GUARD

General KILLEY. Thank you, sir. Mr. Chairman and members of the subcommittee. I would also like to thank you for the opportunity to appear before you here today and to report to you on the status of the Air National Guard, and also to discuss with you some of the challenges and issues that we face today.

As the newly appointed Director of the Air National Guard I'm pleased to report that the Air National Guard is at its highest level of readiness in our history.

Mr. HUTTO. We want to congratulate you on your appointment to that job and we're very pleased that you are here with us today.

General KILLEY. Thank you very much sir. When I say that we are at our highest level of readiness that's easy to say. Every indicator shows that. If you look at our report card, our major inspections, our flying units, all have no unsatisfactories and 70 percent of those flying units receive either an excellent or an outstanding on their major inspections. In our mission support units, 30 percent of those units receive an excellent or an outstanding in their inspection record with no failures. If you look at the number of conversions and activations that we have had in the past year that is absolutely a fantastic record.

On C ratings, 95 percent of our flying units are maintaining a C-1 or a C-2, and 90 plus percent of our mission support units are maintaining a C-1 or a C-2.

I would like to say that this is primarily due to the continued support, not only of the Air Force but of Congress and this committee, for the programs that allow us to recruit and retain the absolutely top quality men and women who perform not only our Federal mission but the State mission as well. These efforts have provided our units with the necessary equipment and modern resources, compatible with the active component and also capable of defeating the threat, as well as provided us the realistic training that is necessary to insure that our people can complete their mission whenever and wherever asked.

In my prepared remarks that are for the record, I report to you on many significant accomplishments and activities of Air National Guard that we have been involved in over the past year. I am not going to reiterate any of those with you now. But as a former Adjutant General and a former field commander I want to acknowledge to you that a great deal of the credit for our success that we enjoy today must go to my predecessor, who we all know, Maj. Gen. John Conaway. He was our Deputy Director of the Air National Guard for 4 years and then the Director of the Air National Guard for another 8 years. He provided outstanding leadership as he set the example for all of the men and women in the Air National Guard to follow.

I can assure you that I will continue to develop the programs that he started. I work very closely with him in his new position as Vice Chief, as he and General Temple lead the Air National Guard into our next decade. As we prepare for the next decade, I recognize that we must now, more so than ever, wisely use our limited resources to insure that we get the most return in military capability for our taxpayers' dollars.

This means that we must properly size our units in terms of the wings of aircraft to take advantage of infrastructure that's already in place. The Air National Guard aircraft and equipment should be the most modern available, to also take advantage of the lower maintenance and supply cost.

We will continue to encourage our people to take advantage of programs such as the Montgomery GI bill, that would support all those initiatives and encourage all of our young people to join and, more importantly, stay with the Guard. This will permit us to continue to meet our recruiting and retention goals that we have met every year.

A full time force continues to be the cornerstone of our overall training program in the Air National Guard. Just as General Scheer mentioned, I am also very concerned about the lack of promotion opportunities in our Active Guard/Reserve (AGR) force needed to make it a career program. Our military technical force program also lags behind the private sector in pay and benefits, especially in the high cost areas in certain regions of the country. As a result, we are losing some of our highly experienced full time people for higher paying career opportunities out in the private sector.

Last, sir, our people must continue to have that quality training to be able to operate and maintain our aircraft and equipment. Our mission effectiveness depends on that quality training. Today our Air National Guard men and women are participating in training programs around the world, alongside our active and reserve counterparts. From basic training to pilot training to technical schools, to exercise and deployments at home and overseas, our training is totally realistic, carefully tailored to maximize our guardsmen's time and capability.

I want to thank you for the opportunity to appear before you today and am prepared to answer any questions that you may have.

PREPARED STATEMENT OF BRIG. GEN. PHILIP G. KILLEY

AIR NATIONAL GUARD

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, as the newly appointed Director of the Air National Guard (ANG), I am pleased to have the opportunity to appear before this committee and report to you on our status.

The Air National Guard is unique among the world's reserve military air forces in that we perform both a state and a federal mission. We provide the states with a disciplined force trained and equipped to protect life and property during natural disasters, civil disorders and other emergencies; we also provide the nation with an effective, economical military force for the national defense. The continued modernization of our aircraft and equipment is essential in maintaining the high standards we have established in performing these dual missions.

STATE MISSION

The State mission of the Air National Guard is to provide assistance to civil authorities during periods of domestic emergency. During FY 1988, 500 Air National Guard men and women expended nearly 5,800 workdays performing missions involving humanitarian support following natural disasters, search and rescue operations, airborne fire fighting support, emergency power and water supply, and evacuation of critically ill or injured persons.

In response to a Congressional mandate, the Air National Guard supported federal, state, and local law enforcement agencies in the war against drugs. This support, conducted primarily during scheduled training, included radar and visual surveillance of suspected drug trafficking aircraft and vessels, air transportation of law enforcement officials, and the loan of specialized equipment.

FEDERAL MISSION

Our Federal mission is to train combat flying units, combat support units, and the personnel needed to support wartime requirements. As a full partner with the Air Force, we perform operational peacetime missions at home and overseas that are compatible with our training and mobilization readiness objectives. We train to fight and win.

As an integral part of this Nation's Total Force, we maintain readiness through diligent peacetime training in all aspects of our wartime missions. Under the Total Force policy which integrates the active duty, National Guard, and reserve components into a single military force, America places increasing reliance on the Air National Guard in meeting national defense objectives. An indication of this greater reliance is found in the proportion of the FY 1990 force structure entrusted to us:

Tactical Fighters: The Air National Guard will provide over 24% of the Air Force's tactical fighter assets in FY 1990 ranging from the F-4 Phantom to the F-15 Eagle and the F-16 Fighting Falcon. Of the thirteen A-7D squadrons, three are equipped with low altitude night attack (LANA) capability.

Strategic Interceptors: The Air National Guard is the primary partner in aerospace defense, and will be supporting over 90% of the Continental United States peacetime alert in FY 1990. Our forces will account for 21 of 23 continental air defense alert locations, providing the North American Aerospace Defense Command (NORAD) its core fighting force. Additionally, peacetime air defense forces are provided to NORAD by Louisiana ANG F-15s, and to Pacific Air Command by Hawaii ANG F-15s helping to defend America's southern and western flanks.

Tactical Reconnaissance: The Air National Guard RF-4C reconnaissance force makes up 49% of the total Air Force tactical reconnaissance capability.

Tactical Air Support: Approximately 42% of the Air Force's tactical air support will come from Air National Guard OA-10 and OA-37 squadrons. Additionally, we will provide three air support operations centers, 60 tactical air control elements, and 40 air liaison officers to priority Army Guard and Reserve maneuver units.

Tactical Airlift: With 36% of the total tactical airlift forces, the Air National Guard will continue to provide substantial airlift support, including joint airborne/air transportability training; airdrop and airland delivery of troops; equipment and supplies; as well as a tactical aeromedical evacuation capability.

Strategic Airlift: One Air National Guard C-141 unit and one C-5A unit continue to provide a significant contribution toward meeting the strategic airlift requirements of the Air Force.

Aerial Refueling: The 13 Air National Guard air refueling units with 118 KC-135s comprise 19% of the Air Force's air refueling assets. Capable of immediate response to tasking, 19 tankers are on alert prepared to support Strategic Air Command's Single Integrated Operational Plan (SIOP).

Aerospace Rescue and Recovery: Three Air National Guard combat rescue units make up 23% of the Air Force rescue and recovery capability. Our newest unit, the 210th Aerospace Rescue and Recovery Squadron in Alaska, will possess four new MH-60G helicopters and two HC-130 tankers. The other two units, also modernizing with the MH-60G helicopters, support the space shuttle program as a unique part of their rescue mission. All three units train for war while providing peacetime rescue and recovery for both military and civil emergencies.

Operational Support Aircraft: The Air National Guard's Operational Support Aircraft (OSA) fleet is wartime tasked. OSA operate in peacetime as an integral part of the Military Airlift Command's (MAC) support airlift system.

Electronic Combat: We continue to upgrade the electronic combat capability of the eight EC-130E aircraft assigned to the Pennsylvania Air National Guard.

FLYING UNITS

With over 1,700 aircraft, Air National Guard flying units perform a variety of missions throughout the spectrum of Air Force missions. Our 91 major flying units are listed by mission area in Table 1.

While the structure of our flying units remains stable at 24 wings and 67 groups, over one third of our units will undergo aircraft modernization by the end of FY 1991. In addition, several units will assume new roles or missions. Table 2 lists those ANG units which will change their assigned aircraft forces during the fiscal year indicated.

MISSION SUPPORT UNITS

The combat effectiveness of the Air National Guard flying mission is directly dependent on the mission support provided by the non-flying units. We have 283 geographically separate or separately deployable units which provide communications, weather, and civil engineering support to the active Air Force, Army, and reserve components. An additional 307 units are collocated and integrated with our flying units to provide primarily medical, security, and aerial port support. Table 3 shows our current mission support units.

We are undertaking a medical service expansion in response to the second echelon (2E) requirements. The 2E is the first opportunity for battle casualties to receive medical care. This care, primarily stabilization, will return wounded soldiers to duty or prepare them for evacuation to the next higher echelon of support where definitive medical/surgical intervention will be available. Our 67 medical units that are identified with second echelon (2E) tasking represent 48% of the total force 2E capability in event of full mobilization. The cornerstone of 2E medical treatment is the Survivable Collective Protection System - Medical (SCPS-M). The Air Force Surgeon General provided the medical service of the Air National Guard with the prototype model of the SCPS-M, a state of the art medical readiness training platform currently located at the Air National Guard Field Training site in Alpena, Michigan. The SCPS-M is in place and should be prepared (with full-time training personnel) to receive incoming 2E tasked Air National Guard and Air Force Reserve medical units this summer. This Air National Guard asset is one of only two that will be located within the Continental United States, attesting to the active force confidence in our medical service. Fifteen medical and ten aeromedical evacuation units deployed a total of 791 personnel to overseas locations during FY 1988. These deployments were in response to Joint Chiefs of Staff exercises, major command taskings and overseas annual training initiatives locations in Europe, Korea, Honduras, and Africa.

Our 98 civil engineering (CE) units - specifically four civil engineering heavy repair (RED HORSE) units, three major command/numbered air force staff augmentation flights, and 91 civil engineering squadrons - are trained and equipped to accomplish such tasks as wartime theater construction management for rapid runway repair, force beddown and base recovery, and major heavy repair. Civil engineering squadrons receive "Base Recovery After Attack Training" at Eglin AFB, Florida. Peacetime alteration and repair projects at locations throughout the world sharpen wartime skills and result in the completion of urgently needed projects for both active and reserve component units.

An important part of our support comes from our 154 service elements, trained to provide the vital wartime services of billeting, food service, laundry, and mortuary affairs. They participate in many Continental United States and overseas field exercises.

Forty-four independent combat communications units are equipped and staffed to support the Defense Communications System, Tactical Air Forces, Special Operations Command, Central Command, and the Joint Task Forces. They are tasked to provide specific communications service to deployed commanders and terminal air traffic control facilities.

We have 30 tactical control units (3 groups, 9 squadrons and 18 flights) operating mobile radar control and reporting centers in addition to providing forward air control posts. These rapid reaction units are a critical link in the war against drugs.

Nineteen engineering installation (EI) squadrons are equipped and trained to install, relocate, remove, restore and accomplish on-site depot level maintenance on radars, antennas, cable plants, radios, teletype, and communications centers. These units represent a significant part of the total Air Force capability and each year accomplish a major portion of the total Air Force peacetime EI work load.

We have three aircraft control and warning squadrons and one detachment which provide air surveillance radar coverage and aircraft control capability for Hawaii and Puerto Rico. The Hawaii Regional Operational Control Center (HIROCC) is operated and maintained completely by Air National Guard personnel and performs the air defense surveillance mission for the Hawaiian Islands.

Three new communication squadrons have recently been activated in direct support of the North Atlantic Treaty Organization (NATO). The NATO Air Base Squadrons (NABS) provide survivable and reliable voice and teletype communications, primarily for command and control as well as logistics in the Central European Theater of Operations. This communication system is a joint United States Air Force and NATO program.

Our 23 aerial port units are equipped, trained, and ready to perform sustained operations in either a mobile environment supporting air-land operations in high threat areas with non-fixed air terminals, or in a strategic role supporting airlift operations at established airfields. Each mobile aerial port possesses its own communication, vehicle maintenance, joint airdrop, and self-defense capabilities and is capable of deploying as a self-contained unit.

We recently broke ground for the Congressionally approved construction of new facilities at the I. G. Brown Air National Guard Professional Military Education Center (PMEC) at Knoxville, Tennessee.

This Center continues to provide outstanding training for the men and women of the Air National Guard, Air Force Reserve, and the United States Air Force. Last year the PMEC trained approximately 3,000 people, half of whom were Non-Commissioned Officers essential to the Air National Guard's ability to remain ready. Another 1,000 were trained in their specialty or functional areas, thereby contributing directly to a more cost effective and mission efficient Air National Guard. The remaining students entered the ANG officer corps to begin service as the future leaders of our force. They represent our investment in the Air National Guard's future, for they will become the senior leaders of the 21st century. We are proud of the accomplishments of PMEC and recognize its value to both the military and the civilian communities of today's citizen airman.

In addition to PMEC, we are starting a Professional Continuing Education Center (PCEC) at Knoxville. It will provide information systems training for all our personnel.

Our remaining mission support units consist of security flights and information support flights at flying units, state headquarters elements, field training sites, airlift support detachments, and weather units. These elements fully complement the flying missions.

Like their flying unit counterparts, mission support units contribute heavily to the total Air Force combat capability. At the end of FY 1990, the Air Guard will maintain 83% of tactical control forces, 69% of engineering and installations forces, 67% of the aircraft control and warning forces, 67% of the Air Force combat communications forces, 26% of the civil engineering forces, 24% of authorized aeromedical evacuation crews, 14% of the weather reporting and forecasting forces, and 13% of aerial port forces.

MORE THAN PART-TIMERS

Today's Air National Guard is a national resource responsive to a far more intense economic and geo-political environment than ever before. No longer are we merely "weekend warriors."

Our mature combat force performs many round-the-clock missions traditionally reserved for the active duty Air Force. Air National Guard A-7s are on constant alert in Panama ready to defend the Panama Canal. The full-time air defense and strategic alert performed by our fighter interceptor and tanker crews are vitally important to America's immediate continental air defense and strategic deterrence requirements.

We share with the Air Force Reserve a full time responsibility for tactical airlift in the southern region. Our specially equipped LC-130s are the only ski-equipped airlift capability for icecap resupply in the Air Force. Our C-141 and C-5 units share the peacetime strategic airlift mission with the Air Force. Of special significance, the second Air Force Armenian earthquake relief mission was flown by a Mississippi Air National Guard C-141 aircrew. The majority of humanitarian missions to Soviet Armenia were flown by the Air National Guard and the Air Force Reserve.

We are especially proud of our aircrew training schools. The three advanced fighter and interceptor schools at Kingsley Field, Oregon; Tucson, Arizona; and McConnell AFB, Kansas provide combat-ready fighter pilots for our F-16s, A-7s and F-4s. Active duty and Air National Guard RF-4 crews receive tactical reconnaissance training at our RF-4 schoolhouse at Boise, Idaho. At Little Rock AFB, Arkansas, the Guard C-130 instructors provide the first C-130 flight training for about one fourth of the Total Force C-130 crews produced each year. As policy makers continue to review defense requirements, the Air National Guard stands ready to meet the challenges given to us.

TRAINING, EXERCISES AND DEPLOYMENTS

In a peacetime environment, the primary role of the Air National Guard is to train for its wartime mission. We train with other active and reserve components in overseas deployments, Joint Chiefs of Staff (JCS) exercises, Air Force training exercises, and Air National Guard-sponsored Composite Force Training exercises. Increased participation in joint exercises has enriched our training and reinforced the Total Force policy.

Our overseas deployments move units to theater locations throughout the world for short periods of time. These deployments provide our members with realistic, theater-specific training. Since airlift accounts for more than 90% of deployment costs, we have exercised several concepts in order to maximize our training dollars. Use of multi-unit deployments, vice single unit, has reduced per unit airlift costs by 20-25%.

During the past year our tanker units deployed aircraft and personnel to Torrejon AB, Spain; Sola, Norway; Andersen AFB, Guam; and Elmendorf AFB, Alaska. Individual Air National Guard tankers deployed to Korea, Japan, Guam, Germany and the United Kingdom. During these deployments, our aircrews gained valuable experience in European and Pacific theater air refueling tactics while our support personnel became seasoned in unit support operations away from home station. The Air National Guard also supports monthly flight rotation requirements in and out of Panama. In addition to performing aerial refueling, the KC-135Es move personnel and equipment. Our FY 1990 budget request will let us continue to support these valuable training opportunities.

For several weeks this past summer, three ANG A-7 units deployed aircraft and personnel to Spangdahlem AB, Germany, for in-theater training. This exercise, CREEK CORSAIR, provided valuable training for our aircrews and gave our North Atlantic Treaty Organization allies cross training opportunities with A-7 aircraft.

Our ski-equipped C-130 unit at Schenectady, New York, provides the only Air Force capability for transporting oversized cargo to remote radar sites on the Greenland icecap. This Arctic resupply mission, Volant Dew, entails airlift of all fuel, construction items and oversized supplies throughout the year; they support National Science Foundation projects on the icecap and provide search and rescue support when required. In addition, the unit has just returned from Antarctica where they supported the Navy and the National Science Foundation.

In the Southern Command region, Air National Guard civil engineering, medical, and communication personnel regularly deploy for valuable training. The ANG maintains four A-7 aircraft on station at all times in defense of the Panama Canal as mentioned. We also support airlift requirements throughout Central and South America with six C-130 aircraft, a mission we share with the Air Force Reserve.

During FY 1988, our Tactical Airlift units provided 1,451 airframe days and 7,255 flying hours in support of 422 Joint Airborne/Air Transportability Training (JA/ATT) missions. This is an inter-service program for the wartime application of airlift in which the services jointly develop common procedures for combat operations to reach and maintain readiness.

The Air Guard also supports the Army in exercises throughout the world. Joint training programs such as those at the National Training Center at Fort Irwin, California, and the Joint Readiness Training Center at Fort Chaffee, Arkansas, provide training experience for both the Army and Air National Guard. Composite Force Training exercises are conducted throughout the year to sharpen fighting skills and familiarize our personnel with joint operations. These exercises are sponsored and planned by Air Guard flying units, Field Training Sites, and active Air Force units to encompass all mission areas of the Air Guard and are developed for the specific purpose of providing realistic training for all participants.

As a further measure of our global involvement, eight Tactical Fighter and Reconnaissance units participated in overseas deployments to Belgium, Japan, Germany, Norway, England, Iceland, and Turkey during FY

1988. The highlight of these deployments was CORONET CRUSADER, a 12 aircraft, 300-person deployment to Chitose AB, Japan. This was the first deployment to a Japanese defense forces base performed by a Continental United States-based Air Force unit.

Nine fighter/reconnaissance/interceptor units participated in the RED FLAG and MAPLE FLAG programs during FY 1988. Four units deployed to Alaska for the North American Aerospace Defense Command (NORAD)-sponsored AMALGAM WARRIOR 88.

In the past year, our combat communications units deployed more than 1,000 personnel to Europe, Central America, Southwest Asia and Korea. Additionally, hundreds of communications personnel participated in dozens of Continental United States and overseas exercises. The combat readiness of these units will be tested again this year by their participation in 26 exercises and deployments worldwide.

Five of our tactical air control units deployed to Europe during FY 1988, participating in 4 JCS exercises involving more than 550 personnel. Eight tactical air control units are scheduled to deploy to Europe in FY 1989 to participate in six Joint Chiefs of Staff exercises.

Our Engineering Installation (EI) units also deployed to Europe and Korea during FY 1988, while our civil engineering and services units participated in Joint Chiefs of Staff, European, Pacific, Alaskan and Southern Command exercises. In addition, our aerial port units deployed 85 teams, consisting of 2,050 personnel, to Military Airlift Command (MAC) overseas and Continental United States ports. This program provided invaluable training for a critical element of MAC's wartime cargo handling capability.

More than 16,000 civil engineering and services personnel routinely deploy to possible wartime theaters of operation to become familiar with local conditions, materials, construction techniques and equipment. Fifty-six percent of our civil engineering and services personnel will deploy overseas this year. Last year, Air National Guard civil engineering personnel supported exercises and United States interests in Central America, the Pacific and Europe. Again in FY 1989, civil engineering and services personnel will deploy to Europe, the Pacific, Central America, Canada, Alaska and numerous locations within Continental United States in support of exercises and deployment requirements. We will rotate eight 50-person civil engineering teams every two weeks to Palmerola AB, Honduras, to perform contingency construction projects in support of Task Force Bravo. Six teams will deploy to Honduras and Costa Rica to engage in Humanitarian/Civic Action (HCA) projects in remote areas of that country. We are currently planning a joint services HCA program in the Caribbean Basin island nations with Army engineers and Navy Seabees, under the umbrella of United States Atlantic Command. We are committed to maintaining an aggressive overseas exercise program in FY 1990 to insure that our flying and non-flying units can demonstrate combat capability and have the opportunity to visit the areas of the world where they may be required to fight.

READINESS

Air National Guard units are required to train for and maintain the same readiness standards as their active duty counterparts. One measure of our readiness is the results of Operational Readiness Inspections (ORI) conducted by active Air Force inspection teams. These inspections use realistic wartime scenarios, and provide a true test of the unit's ability to accomplish its wartime tasking. In FY 1988, all of our combat flying units tested passed these inspections, with 70% earning an overall rating of "excellent" or "outstanding."

While we can boast of our inspection records, we still have some readiness shortfalls. One of our greatest needs is for modern equipment. We made progress in FY 1988 by acquiring eight C-130 tactical airlifters and two HC-130 rescue tankers, sixteen MH-60 combat rescue helicopters, four of which will add a much needed capability in the Alaskan theater, and four C-26A aircraft which will modernize our operational support fleet while decreasing operating costs. With FY 1989 dollars we are procuring fourteen C-130Hs to replace aging C-130As, and three additional C-26As to further fill the wartime support airlift shortfall with low-cost, reliable aircraft. The C-26A aircraft is the best equipped and most capable aircraft of its type and was acquired in record time and at the lowest cost.

Yet for all the recent support of Congress we still have some equipment shortages. Some items of our communications equipment need modernization. Our information systems shortfall has been exacerbated by the increase of requirements and of limited funding. The C-130As and

C-130Bs have severe supportability problems developing due to age. We possess the only C-130As and the majority of the C130Bs in the Air Force inventory. As we move into the F-15, F-16, C-141 and C-5 missions, we are experiencing serious support equipment shortfalls which must continue to receive our special attention. While we are modernizing our fighter force with newer airframes, our fighters are generally early model aircraft that require avionics systems upgrades to be competitive against the current threat. Specifically, we have sought improvements to the F-15 A/B through the Multi-Stage-Improvement-Program (MSIP). MSIP provides significant combat capability enhancement as well as improved maintenance supportability. Though underfunded at this time, we hope to continue with this program and bring the technology level of our aircraft in line with that of the active forces.

We have embarked on modernization, survivability, and combat capability improvements to F-16A/B aircraft that include threat detection and warning systems, countermeasures dispensing upgrades and enhanced envelope gun sight systems, and avionics upgrades through Mid-Life Update (MLU) technology. We are looking to optimize training in these task intensive systems through Part Task Trainers (PTT). Due to the maintenance-intensive older engines in both our F-15A/Bs and F-16A/Bs we are experiencing problems with adequate numbers of serviceable spares. The remedy to this problem is through retrofit of the older engines to the newer F100-PW-220E configuration. We are working this approach with the other units of the Tactical Air Force that are also experiencing these problems.

Our tactical and strategic airlift forces have no electronic capability for threat detection and no self-protection systems to ensure completion of their assigned worldwide missions. In an effort to remedy this problem, we are actively participating with other major commands who are examining these problem shortfalls while emphasizing commonality within the airlift fleet. In FY 1990 we hope to begin an effort, starting with our tactical C-130 aircraft, to field an airlift defensive suite.

COMPETITION

Competition among similar units provides an opportunity to compare our skills with those of the other components and to assess our ability to meet the task of a wartime mission. Some of the competitive events we participated in during FY 1988 are highlighted in the following paragraphs.

Four of our units participated in Reconnaissance Air Meet '88 (RAM '88) at Bergstrom AFB, TX, in August 1988. Sponsored by Tactical Air Command, this reconnaissance competition is held every two years to demonstrate the capabilities of reconnaissance forces of the United States and those of our Allies. While the "Top Unit" Award went to the unit representing United States Air Forces in Europe, the Nevada Air National Guard was second, with our teams holding four of the top seven spots. The Top Maintenance Award went to the Nebraska Air National Guard, and they also won the Top Imagery Interpreter Award.

Four Air National Guard units competed in the biennial Air Defense competition, William Tell '88, held at Tyndall AFB, Florida, in October

1988. While three of the units were flying outdated F-4 Phantoms against F-15 Eagles, the Oregon Air National Guard finished ahead of two F-15 Squadrons in their F-4's.

The 129th Air Rescue and Reconnaissance Group, Moffett Field, California, won the coveted Pitsenbarger Award for the most outstanding pararescue section in the Air Force. Pararescue personnel have the longest training program and one of the most demanding jobs keeping current in medical skills, flying, parachuting and scuba training. This unit repeatedly demonstrated their outstanding performance from the North Atlantic to the Sierras of California in 20 missions which saved 21 lives.

MANPOWER

The single most important ingredient in readiness is manpower. Manpower levels of the Air National Guard have grown substantially over the last decade and are indicative of the missions being transferred from the active Air Force to the Guard and Reserve components. Our FY 1990 end strength of 116,300 is 1,325 above our FY 1989 level. The majority of the programmed growth is to support increases in the medical and security functional areas.

Full-time manpower is vital to the success of our mission and consists of a mix of Title 32 military technicians, Active Guard/Reserve (AGR) personnel and Title 5 civilians. The military technicians and AGR personnel are a highly trained cadre who accomplish the day-to-day workload and are the backbone and the reason for the high state of operational readiness enjoyed today. The majority of our military technicians are in maintenance and support functions. Flying training instruction, security, field training sites, ranges, detached alerts, recruiting, retention and other military functions are performed by AGR personnel. Title 5 civilians are employed at the Headquarters and at those bases where the Air National Guard has been designated as the host.

The revised recruiting goal for FY 1988 of 115,000 was exceeded by 221. For FY 1989, our total end strength authorized by Congress was 115,200, now however, due to our funding priorities our end strength has been reduced to 114,975.

We have prioritized recruiting efforts to fill critical skill positions before other existing or projected vacancies whenever possible. Our bonus and incentive funds are directed at traditionally hard to fill positions and those identified as critical for wartime taskings. The Montgomery GI Bill (MGIB) continues to be the single most successful inducement to recruit and retain members in the Air National Guard. Six year commitments, a prerequisite for MGIB eligibility, have increased in both new enlistments and reenlistments. This provides force stability which reduces training costs and improves unit combat readiness.

Prior service personnel still account for approximately 60% of our accessions and continue to provide savings in basic military training and initial skills training. Although we are able to use these trained and experienced personnel to improve unit combat readiness, we find that many lower grade positions in our units remain vacant. We also experience difficulty in offering prior service personnel the grade advancement opportunities necessary for retention beyond their initial enlistment with the Air National Guard.

MANPOWER PROBLEM AREAS

A serious problem facing the Air National Guard is the Active Guard/Reserve (AGR) grade ceiling. The AGR program was begun in FY 1979 as a test program. At the current time we have about 8,000 people involved. In FY 1988 our requested grade ceiling levels were reduced and in FY 1989 all increases over the FY 1988 level were disallowed. Many of our highly qualified flying training instructors are now leaving the AGR program to fly with the airlines because they view the AGR program as unstable and their chances for promotion slim. This program was established as a career incentive less than ten years ago. It must be allowed to mature, and when warranted, those holding validated higher graded positions should be promoted as they become eligible.

PERSONNEL LEGISLATION

An area of significant legislation that will impact personnel management within the Air National Guard is the Reserve Officers Personnel Management Act (ROPMA).

ROPMA, introduced to the 100th Congress, has met with little to no success. We ask that you consider and adopt this important legislation, which will soon be submitted to the 101st Congress, that will enhance the management and readiness of the Air National Guard officer corps.

FORCE MIX

The current force structure within the United States Air Force, Air National Guard, and the Air Force Reserve is a result of many years of programming and planning to develop the best blue suit mix to ensure the security of our nation and our commitment to the free world.

Many questions are being raised regarding the future role of the Air National Guard and the desirability of accepting more missions. If the threat within the world changes to the point where force mix changes are warranted, the Air National Guard position is that modernization and robusting of existing units is our preferred method of satisfying these changes in responsibility.

FY 1990/91 PRESIDENT'S BUDGET

Our request for FY 1990 provides the minimum funding necessary to sustain the combat capability and cost effectiveness of today's Air National Guard. By any measure, we are more combat ready today and provide more combat capability for our nation's defense than ever before. This is due to the high experience level of our personnel, the stability in our units, the quality and intensity of our training programs and the modernization of our equipment. Within today's fiscally constrained environment, I believe that the Air National Guard, among all military components, provides the greatest return in capability for the taxpayer's dollar. With 3.3% of the Air Force budget we provide over 90% of the air defense of America, 36% of the tactical airlift capability, and 24% of the tactical fighter capability. In FY 1990, we will log over 440,000 flying hours, participate in military exercises around the world, train with all services, and convert a third of our flying units to more modern equipment.

The "Operation and Maintenance-ANG" appropriation supports the day-to-day operations of all Air National Guard units. Major items funded by this appropriation are payroll costs for military technicians and civilian personnel, flying hours, depot maintenance of aircraft and equipment, real property maintenance, and the day-to-day supplies and services necessary during the normal course of operations.

The "National Guard Personnel-Air Force" appropriation funds the personnel costs of all Air National Guard members, the school and special training programs, subsistence and clothing costs, disability and hospitalization benefits, incentive payments, educational benefits, and retired pay accrual costs.

The "Military Construction-ANG" appropriation funds minor and major construction projects at our facilities as well as planning and design funds for future construction projects.

The following chart compares the FY 1989 funded position, and the

FY 1990 and FY 1991 projections for the three major ANG appropriations:

Item	FY 1989	FY 1990	FY 1991
	(Dollars in Millions)		
Operation & Maintenance, ANG	$2,017.6	$2,055.8	$2,184.9
National Guard Personnel, AF	1,029.6	1,047.0	1,087.9
Military Construction, ANG	158.5	164.6	107.2
Total	$3,205.7	$3,267.4	$3,380.0

CONCLUSION

The Air National Guard is an integral part of the Total Force. We continue our support of national security objectives while providing a militia uniquely qualified for our states' needs. Our responsibilities are global, national and local in scope, each offering its own set of challenges for the future.

The Air National Guard is successfully meeting the challenges we have been presented. The capability of our citizen airmen to respond to the most demanding wartime missions is a matter of record. We appreciate, and need, the continued strong support of the Congress, permitting the Air National Guard to continue modernization and to significantly progress toward our mandate of strength through readiness.

Mr. Chairman, this concludes my prepared statement and I will be pleased to answer any questions from you or members of your distinguished Committee.

TABLE 1

MAJOR FLYING UNITS OF THE AIR NATIONAL GUARD

Mission	No. of Units	Type of Aircraft
Tactical Fighter	33	A-7, A-10, F-4, F-15, F-16
Tactical Airlift	20	C-130
Aerial Refueling	12	KC-135E
Air Defense	12	F-4, F-15, F-16
Tactical Reconnaissance	5	RF-4C
Tactical Air Support	4	OA-37, OA-10
Rescue and Recovery	2	HC-130, HH-3, MH-60G
Strategic Airlift	2	C-141, C-5
Special Operations	1	EC-130E

TABLE 2

CONVERSION/MODERNIZATION SCHEDULE OF THE AIR NATIONAL GUARD

Unit	Action	IN FY
Dannelly Fld, AL	-18 F-4D; +18 F-16A/B	89
Kingsley Fld, OR	-18 F-4C; +18 F-16A/B	89
Stewart, NY	+3 C-5A (to 11 PAA)	89
McConnell, KS (RTU)	-36 F-4D; +36 F-16A/B	89
Hancock Fld, NY	-24 A-10; +18 F-16A/B	89
Willow Grove, PA	-18 OA-37; +18 OA-10	89
Fresno, CA	-18 F-4D; +18 F-16 A/B	89
Louisville, KY	+4 C-130B	90
Portland, OR	-18 F-4C; +18 F-15A/B	90
Ellington Fld, TX	-18 F-4D; +18 F-16A/B	90
Fargo, ND	-18 F4-D; +18 F-16A/B	90
Duluth, MN	-18 F-4D; +18 F-16A/B	90
Selfridge, MI	-18 F-4D; +18 F-16A/B	90
Andrews AFB, MD	-24 F-4D; +18 F-16A/B	90
Springfield, IL	-24 F-4D; +18 F-16A/B	90
McGuire AFB, NJ	-18 F-4E; +18 F-16A/B	90
March AFB, CA	-24 F-4E; +18 OA-10	90
Eielson, AK	+4 KC-135E	90
Rickenbacker, OH	+2 KC-135E	90
Phoenix AZ	+2 KC-135E	90
Suffolk Co, NY	-1 HC-130P, -5 HH-3E; +5 MH-60G	90
Moffett, CA	-1 CH-3	90
Elmendorf AFB, AK	+4 MH-60G	90
Nashville, TN	-16 C-130A; +8 C-130H	90
Quonset PT, RI	-8 C-130A; +8 C-130E	90
Baltimore, MD	-8 C-130B; +8 C-130E	90
Martinsburg, WV	-12 C-130B; +12 C-130E	90
Channel Island, CA	-4 C-130E	90
Niagara Falls, NY	-18 F-4D; +18 F-16A/B	91
McConnell, KS (RTU)	+18 F-16	91
Memphis, TN	-8 C-130A; +8 C-141B	91
Moffett, CA	-4 HH3E; +4 MH60G	91
Elmendorf, AK	+2 HC-130N	91

TABLE 3

MISSION SUPPORT UNITS OF THE AIR NATIONAL GUARD

Type of Unit/Mission	Number of Units
Medical	101
Civil Engineering	98
Security	89
Communications Flights	41
Combat Communications	44
Tactical Control Units	30
Engineering Installations	19
Air Traffic Control Units	8
Aircraft Control & Warning	3
Joint Communications Support Squadron	2
Range Control	1
NATO Air Base SATCOM Squadron	3
Direct Air Support Center Squadrons	2
Communications/Electronic Maintenance Squadrons	2
Weather	39
Aerial Port	22
Reconnaissance Technical	2
State Headquarters Elements	54
Bands	12
Permanent Field Training Sites	4
Field Training Flight	1
Tower Operations	1
Airlift Support	2
ANG Host Bases (BOS)	5
Air Base Group (Guam)	1
Electronic Security Squadron	1
Tactical Air Control Party Flight(TACPF)	1
Air Support Operations Center Squadron (ASOCS)	1
Professional Military Education Center	1
TOTAL	590

Mr. HUTTO. Thank you, General Killey. Your statement will also be submitted for the record. General Scheer, what was the percentage of reduction that you said would be applicable?

General SCHEER. In our O&M sir?

Mr. HUTTO. Yes.

General SCHEER. We have a decline of 7.5 percent in fiscal year 1990 over fiscal year 1989.

Mr. HUTTO. Excuse me, where will these cuts be made?

General SCHEER. Some of those cuts were programmatic as a result of converting older aircraft into new aircraft and the associated lower operating costs. Others were the result of having to absorb some pay and health benefit increases and so forth. But another big portion was fuel costs reduced in fiscal year 1990 over fiscal year 1989. Others were costs that were not attached to any particular function but were a result of an overall decrease in the DOD budget.

Mr. HUTTO. Do you anticipate any funding problems in the remainder of this year?

General SCHEER. No sir, I would say in fiscal year 1989 we are in good shape.

Mr. HUTTO. What are your overall priorities for fiscal year 1990 and 1991, and your major areas where you see short falls? Can all of your specific training be accomplished if your request is reduced by an overall 2 percent as we anticipate it might be?

General SCHEER. If we were decreased by 2 percent, our civilian; our full-time people who are funded out of O&M would be adversely impacted. I would say no, our readiness is going to be directly associated with funding levels. We will see a decrease in readiness with any decrease in funding simply because we are so O&M intensive. Now particularly, though, as we mentioned before, our full time manning has got to stay at the levels it is today, and we have got to be able to recruit and retain those people. They are really the backbone of our training on a day to day basis.

But if there is a 2 percent, let's say, decrease, we will see that as a result of the support we get from the active duty for exchangeables and spares, those kinds of things will directly affect the readiness of our flying equipment. Then of course it will affect us in our manning, our full-time manning and part-time manning, as to how many of those people we will be able to bring on board.

Mr. HUTTO. General Killey, in your view, would the Guard and the Reserve have better budgetary results if there was a direct line of command to the Chief of Staff from the Reserve components?

General KILLEY. I think that could possibly help, sir. We've been very fortunate in our budget over the years and as programmed not only in 1989 but in 1990 and 1991, if we are able to retain the budget as programmed I think we will have no problem executing it. I don't have any specific areas right now that I have budget problems. However, in 1989 we are experiencing some problems in the full-time area with less than 91.5 percent manned, and we need to be more up to the 95 percent level.

Mr. HUTTO. OK, the integration of the active and reserve forces was a topic in a recent General Accounting Office report. While the report dealt primarily with the Army, what do you see as the problems, possibilities and pitfalls to a more extensive integration of the active and reserve guard components?

General KILLEY. Right now, sir, if you mean shifting more force mix over to the Reserve component, under current military strategy we need a certain percentage of our forward based. This percentage has been developed through years of planning based upon the actual threat that exists. If that threat does change, the actual threat, not the perceived threat, and the decision is made to reduce some of our force structure overseas and bring it home, the best way that I can see that being integrated into the Air National Guard is for us to robust our existing units.

Very simply, robusting our small airplanes (fighter type airplanes) from 18 to 24 aircraft assigned and our bigger airplanes, (the airlift and tanker units, up to 12. Aircraft assigned can be done very cost effectively with existing force structure personnel and current facilities.

Mr. HUTTO. General Scheer, how do you see that from the Reserve standpoint?

General SCHEER. Exactly the same way, Mr. Chairman. Robusting units to what is really an effective size force, that force that minimizes the open the door cost is just as Phil said, robusting to the 24 on fighters, the 12 in the airlifters and tankers. That would be extremely easy to do.

Mr. HUTTO. You're talking no additional missions.

General SCHEER. No. What added missions could we take on?

Mr. HUTTO. Yes, Mr. Waters?

Mr. WATERS. You are addressing the question with your existing mission. I think the Chairman is also interested in the expansion at the possibility of any new missions you could take on.

General SCHEER. I guess the basis that we use for what makes a Reserve mission is fairly simple. One, it has to have a relatively low peacetime activity level with a high degree of surge requirement in the event of a contingency. That's what makes us less expensive. If we can obviously keep down our peacetime activity level. Coupled with that, it should have very little, if any, forward deployed requirements during peacetime since we just can't our reservists overseas on a full-time basis. Then the last criteria is that we don't think we can afford any loss in combat readiness if a mission is changed.

So with those criteria in mind, we're literally in every mission there is today in the Air Force across the board. As to new missions, I am sure there are some new ones that might fall in that criterion but I really can't think of any right now.

Mr. WATERS. All of the discussions we're having today as far as additional missions and responsibilities are—you have those missions now?

General SCHEER. Yes, for the most part.

General KILLEY. Mr. Chairman, I would just like to reemphasize what Roger said. We are basically, other than a very few exceptions, in every mission that the Air Force has. I would just like to reiterate that the best way for us to gain mission or force structure is by robusting. We talk about new missions, we have got some newer missions in the Air Guard in recent years and I will tell you that we're looking at that very closely right now, but for me to say that we're ready to step up to this new mission or would be premature.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. Thank you, Mr. Chairman. These questions may be generally responded to by either or both of you as appropriate.

The GAO's impression that 50 percent of a reservist's duty is consumed by the performance of administrative rather than operational training. What is your impression of the mix and is that mix appropriate and satisfactory to you? Though that question is phrased in reservist terms it also applies perhaps to the Guard, if you could also comment, General Killey.

General SCHEER. Well I think, sir, most of that was directed to the Army. But let me say, our air crews have to put in at least 100 days a year on the average, it's a little over that. Probably 90 of those days are flying. There aren't too many administrative requirements. We've cut a great deal of those, incidentally, over the last few years. Still, we have some ways to go on that. I know if you're asking a reservist, he is going to say there is way too much paperwork, and I agree there is. But it is nowhere near the 50 percent, I think it is probably closer to 8 or 10 percent. I do not really have a number on that, but I don't think that in the case—as Phil mentioned before, when you look at the ORI's, the operational readiness inspections, that the active duty performs on our people, those inspections are by the active duty standards. There is no way that our people would pass those if they were doing nothing but paperwork. That's an impossibility.

So yes, there is too much paperwork, but it is a lot closer to 10 percent than it is 50.

General KILLEY. I would just like to add that, the training we are doing today is absolutely the best we have ever done and we are deploying worldwide. We basically participate in every exercise there is around the world, both our mission support and our flying units. The Operational Readiness Inspections (ORI) that we have both talked about are very demanding, realistic tests of the unit's ability to perform its wartime mission. True, we demand a tremendous amount from our traditional guardsmen, certainly more than the 39 days that are advertised.

As Roger said with our rated people, they perform over 100 days a year.

We are continually trying to streamline our training requirements. We are going through an exercise right now trying to zero-base training requirements so that we have a balance between time available and those training requirements levied on us. We are certainly going to streamline the paperwork that is involved. When either a major command, the Air Force or our own people, add on a training requirement, if it exceeds the total bottom line time available, we're not going to add it on unless something else comes off the plate.

Mr. LANCASTER. I have asked this question in a previous hearing, but would like, for the purposes of the record, to ask it again today.

With the going to much new equipment with the added commitments that our Reserve and Guardsmen are now filling for the total force concept, we are placing more and more demands on our reservists and guardsmen over and above the traditional 1 weekend a month and 3 weeks in the summer. That is beginning to create significant problems for employers.

What are you doing to help your guardsmen and reservists in their relationship with their employers, and do we need to look at some sort of incentive for employers to allow their employees who are guardsmen and reservists to take the additional time needed to meet these commitments, whether it is a tax credit or man days lost over and above the 12 weekends and 2 weeks in the summer or some other incentive?

General **Killey**. I would comment that yes, we are demanding more from our people and we have more sophisticated equipment to operate. It becomes more important than ever that we retain our quality people because we need that basis of stability and experience.

Mr. **Lancaster**. But, what are you doing with the employer, that is the focus of my question.

General **Killey**. We focus a lot on employer support, and that is usually done at the unit level. The commander on down to all the troops out there, put a lot of emphasis on insuring that the employer is in tune with the responsibility of the traditional guardsman. To answer your question about the incentive programs that could be added on to help the employer, I think that it is certainly worth consideration and has a lot of merit.

General **Scheer**. I think sir, too, I said in my opening statement—I think employers are one of the unsung heroes in the success of the Reserve forces. We have flying activities, that continue on a daily basis. Accordingly, we do not require our reservists to perform their duties only at scheduled times; we can literally let them perform those 2 days of reserve any day during the month. Since our activity level and the training they can get on a Monday can equal that on a Saturday or Sunday, our program can accommodate the reservist's schedule. By the same token, we appreciate the flexibility employers have shown in affording reservists flexibility in performing their reserve duties.

Mr. **Lancaster**. How about when it exceeds 2 days a month which it often does not?

General **Scheer**. Yes, if it does—I couldn't agree more with you. We're asking more than we have a right to expect out of these people and I think some kind of a tax incentive for the employers is long overdue.

Mr. **Lancaster**. General Scheer, in your statement, you point out that it is increasingly difficult to hire technicians because of the low pay and the fact that it is not on parity with civil pay. You asked Congress to address these inequities. Do you mean by that that the 2 percent pay increase that the President asked for is insufficient and that we should, in fact, approve more than what the President has recommended?

General **Scheer**. Yes sir, I think that that's a good point. That summarizes it. Ninety-nine percent of our full timers come to us from active duty. Now civilian civil service pay has not kept pace with the military. We are not even considering how it compares with the civil sector. But an individual coming out of active duty service today, particularly when he has many airline opportunities, is going to look twice before coming into our program. He doesn't want to take the pay cut when there are certainly other options.

So I don't know what the answer is for the total civil service sector, but since this technician is a military person really, his or her duties are all military in nature. We have got to split him off some way at least from the rest of the civil service and look at what his or her requirements are and what we need to do to keep him or her.

Mr. **Lancaster**. Your statement also notes substantial drops in fiscal year 1990 for civil work year levels and contract funding for maintenance prepared facilities. A decrease of $12.3 million, depot maintenance program down $33 million, and base operating support fund down $2 million. What kind of backlog does this imply for the future in each category? You also state that military contract funding is sufficient for current construction but not for the considerable backlog of facility requirements that resulted from previous shortfalls. What I would like to address is what on earth was done with the money when we had significant increases in the early parts of the 1980's and what are we going to do for the future when we very clearly are going to have at best level funding, and probably reduced funding? Did we spend the money well back then?

If so, why do we have these backlogs and what are we going to do to address the backlogs in an era of level or decreased funding?

General **Scheer**. Yes sir, first I do think the money was well spent and a great deal of that went to the modernization. If you look at the reserve forces today, modernization-wise, we wouldn't have believed 5 years ago that we would be here today. Literally in another year or two we will be out of the F-4 force and we will have nothing but F-16's, A-10', KC-10's, C-141's, the same aircraft that the active forces has.

So yes, the money was spent wisely, and not only in modernization but in training. We put a lot more money into realistic training, into deployments and the actual range missions, air crew range missions and the like; more than we've ever done before. That money was made available through the build up that you spoke about.

But what that money did when we modernized, we put a lot of money into the modernization, into the new buildings that were required to be put up for the new weapons systems and let the old facilities suffer. That is where we are today.

In the backlog of maintenance for our buildings, they are just going to get older. We are on a funding level of being able to replace our buildings every 100 years. That might be all right if we were starting from a base line in most cases of new buildings, but in a lot of cases these are old facilities.

Also, in the area of depot maintenance, not only will we see our portion of it decrease, but the active portion is taking a like decrease which in the long run will have a backlash on us, since we get our parts and equipment from the same source.

The bottom line is most of our facilities are just going to get a little bit older, and we are going to have to make do with a little less sufficient facilities in the future, if that is what it takes.

Mr. **Lancaster**. You mentioned the congressional add ons of C-130H aircraft in fiscal year 1988 and 1989, and MH-60G helicopters last year.

Do you mean to imply by that that you get better support in Congress than you do across the river, and what does that mean for your program?

Are you getting the support you need before the program comes to Capitol Hill?

General **Scheer**. I would be very happy for the Guard guy to answer that.

[Laughter.]

General **Scheer**. No, we compete for the dollar, for the defense dollar in the normal process that all the active duty guys do, Congressman. We participate in the corporate board structure that is the way of business in the Air Force today. From the lower level panels up to the three star level "Council," we have representatives on the entire broad structure. We take our fair share of the hits as well as the pluses, as we realized a few years ago. So no, I think we are treated fairly across the board by the Air Force in that process.

Maybe we were treated more than fairly by you folks.

Mr. **Lancaster**. One last question, you state that 97 percent of your units, excluding those in conversions, are combat ready. How many are in conversion? In other words, what is your percentage of combat ready units overall, including those in conversion?

General **Scheer**. I can get that for you sir. But I would guess we probably have 5 percent of our units in conversion right now at the most. So maybe 92 percent overall.

[The following information was received for the record:]

Unit Conversion

Four percent of our total units are in conversion right now. Ninety-four percent of our total units are combat ready.

Mr. **Lancaster**. I wonder if General Killey could respond to that same question for the Guard, though. It was not in your prepared remarks?

General **Killey**. I mentioned in my opening statement, 95 percent of our flying units are C-1 or C-2. As you go down to C-3, I would say we're up probably——

Mr. **Lancaster**. But did you make a similar reduction in readiness based on those that were in conversion, or was that an overall picture?

General **Killey**. That is the entire picture. Right now in fiscal year 1990 we will have approximately a third of our units on conversion—either a conversion or a new unit.

Mr. **Lancaster**. Are those, the one third that are going to be in conversion, going to be combat ready or is it going to take a while?

General **Killey**. No, there will be a period of time when they drop from a C-3 status before they come up to a C-3 status in the new equipment. The way that we handle our conversion, that time is kept to a minimum which allows us to retain the readiness.

Mr. LANCASTER. Is there some way that you can generalize the time that they are going to be down in terms of readiness? Are we talking about months, days, years?

General KILLEY. I would say the average time that a unit is less than combat ready during a conversion is—3 to 4 months.

Mr. LANCASTER. Same with you, General Scheer?

General SCHEER. If we are converting, let's say an F-4 to an F-16 unit, fighter to fighter, we are given 6 months by the Air Force to get back up to speed. Same way if we are going from one airlifter to a new airlifter. It's normally 6 months.

If we are starting a unit from scratch then normally you are given a year. We have yet to request an extension for any of those limits for conversion. As Phil said, 6 months from fighter to fighter, usually we beat that by a month or two.

Mr. LANCASTER. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman. General Scheer and General Killey, it's very good to have you here today and thank you for coming in to testimony before us.

Since 1980 the end-strength of the Air National Guard and the Air Reserve have increased by about 19,000 and 40,000 personnel, respectively, or by 19 and 40 percent. To what mission areas were the increased personnel strength supplied and what factors were considered in deciding to increase reserve responsibilities? Particularly, could each of you please discuss the capability and the resource considerations?

General KILLEY. Let me make sure I understand your question, sir. You are asking since 1980, the increase in end-strength that we have, what areas specifically did we increase, what missions did we increase?

Mr. RAY. That is right.

General KILLEY. A good portion of the increase was in the mission support area. We have, in recent years, had a large increase in our medical missions, and our security mission has increased. In the flying arena, we came into the strategic airlift business which we were not in before. We have also robusted, as we have converted some of our units. The size of the units have increased. We have also picked up additional missions and force structure with alert requirements particularly in the air refueling mission.

Mr. RAY. I see. General Scheer.

General SCHEER. Yes sir. It is pretty much the same picture from 1980 to the present, our flying units may have increased by one or two. Now some of those flying units have been enlarged, peoplewise. For instance, if you go from a C-130 to a C-5 there is a lot more people involved in that. But basically the flying portion of our program has been mission-wise fairly well stabilized. As to the non-flying or mission support area, especially medical has been a major build. Civil engineers, aerial port squadrons, that type of mission support is where the bulk of our growth has been, and then again not in units but in the size of the units.

Mr. RAY. Thank you, sir. One alternative that has been suggested in reducing defense expenditures overall is to transfer additional responsibilities to the Air Guard and Reserve. In your view, can the Air Force Reserve and the Air National Guard absorb more mission responsibility? Both of you?

General **Killey**. I would again go back to this previous statement that any additional mission or force structure that would be shifted to the Reserve component, I think would be most wisely done by robusting our existing units. We are basically in all the missions that the Air Force is in now, and to say—to go into new areas that we are not in would be premature.

General **Scheer**. Yes, the robusting is a given. That would be a very easy thing to do, and cost effective. I would like to point out though sir, the only reason the reserve forces can be as cost effective as they are today without losing any readiness is because in our case 80 percent of our people come to us from the active duty, already trained, all we have to do is keep them trained.

Now if we ever get to a point where the reserve gets too large, that the pool from the active duty is no longer sufficient to keep us 100 percent manned, then obviously we are going to have to man with the non-trained, so either our readiness will go down, or our activity levels would have to go up to meet the same readiness as today. Either way our costs would go up and our readiness would go down.

So there has got to be a point where those lines cross, where more growth would not be efficient. I don't really know where that is. I would say that we are not really too far from that today. If you would change force mix robusting would be certainly the way to do it.

Mr. **Ray**. You have been saying that if you received more transfers from active duty to the Reserve and the Guard that you would blend those in the new type of programs, is that what you said?

General **Killey**. Yes, sir.

Mr. **Ray**. Do you think that we could actually affect the better operating capability in the regular forces from a cost standpoint if we transferred some of these missions into the Guard and Reserve? Overall capability of the total package would be adequate? Can you comment on that?

General **Scheer**. Well, we've got to define what the threat would be, Congressman Ray. We can maintain the same level of readiness, but we can't forward deploy those forces. In a non-mobilized contingency for instance, we could not guarantee that our forces could respond like those of the active duty. So we would have to say what the scenario is. But no, cost is only one measure of force mix requirements, and I do not think that until the threat changes that cost is really the determining factor.

Mr. **Ray**. Recently the Spanish situation on Torrejon Air Base in Spain, asked us, in effect, to move the F-16 air wing out of Spain. The first indication was that we were going to transfer it back into the—I guess the Reserve or the Guard, back into this country. Do either of you recall what the plans were?

General **Scheer**. As far as I remember the first priority was to find another place over in Europe. At the same time I do not remember a plan to put that in the Guard or the Reserve as a first option.

Mr. **Ray**. Well, the committee received some general information that finally they had given up on trying to find another home in

Europe because of the cost, the problems that we face now in the frozen defense budget, and the idea would be best to just phase it out and bring it back into the Reserve or the Guard. So neither one of you have knowledge of that general conversation ever having taken place when that idea was discussed?

General KILLEY. When that initial discussion came about, I was not in the current position. I do not know of any formal plan to ask the Guard or Reserve to look at what we would do with those units if they would come to us.

Mr. RAY. OK. Secretary Weinberger appeared before the committee a month or two ago, and he said that a frozen defense means a reduction in much of the weapon systems being produced in the pipeline, $172 billion in that pipeline at this point in time, a reduction in troop strength and perhaps a change in military strategy. So we face that situation, and at this point in time as we look at that airbase and the F-16 wing, NATO has agreed to underwrite it in Italy. But, as we look into it a little bit more seriously we find that the 16th Air Force has to go along with it. That while we underwrite 28 percent of the NATO cost of that base, the Italians now are sticking a price of $10,000 per acre on the land in a very remote area of Italy, mostly inhabited by communist members of that country, and they do not even say that they are going to provide any protection for that base. We would need to locate 10,000 residents on that base inside the base there.

So the point I am getting at is that as we look at that and examine it very carefully in light of a serious situation with a frozen defense we may have to consider bringing it back to this country. Now if we do that, are you prepared, or can you absorb that without any problem?

General SCHEER. Yes sir, that would just be—through the robusting we could—that decision would be made, then that would not be a hard conversion to take.

Mr. RAY. Yes sir, please.

General KILLEY. I would comment on that, as you are very much aware, as we reduce defense spending the active, Guard and Reserve have all shared in the burden sharing. In the fighter world we drew down some of our units. We are in the process of drawing down from 24 to 18 Primary Air Authorization (PAA). We are losing about 25 percent of our capability at about 5 percent of the cost of what it takes to operate those units. So it would be very easy to bring our 18 PAA back up to 24 and spread that force structure around the various F-16 units at a minimum cost.

Mr. RAY. I've just learned this week that the real estate people in Italy are hiring an American lobbying firm to try to be sure that we do go to that remote area, where there are no utilities, nothing else, to build up that part of Italy.

General Scheer, I understand that as soon as the C-17 comes on we will be moving 80 to 100 C-141's into the Reserve forces?

General SCHEER. I think it is 60.

Mr. RAY. Sixty?

General SCHEER. In the Air Force Reserve, I believe, yes.

Mr. RAY. No problem, you've moved those in okay?

General SCHEER. Yes.

Mr. **Ray**. Did the 1989 operation and maintenance budget affect the Reserve or the Guard as it did the regular forces, Air Force in particular?

General **Scheer**. 1989 no sir, we did all right.

Mr. **Ray**. Or 1988?

General **Scheer**. No, I believe we had about a 2 percent reduction in 1988 but nowhere near what the active had. We did not have anywhere near the problem.

Mr. **Ray**. All right, sir. In Mr. Lancaster's discussion with you about building repair and the infrastructure and so forth, is that plugged in to the annual operating budget and overhead or does that take a low priority after everything else is paid for?

General **Scheer**. That is kind of a separate funding item that gets handled in a little different way—our military construction program, our facility maintenance is a separate item and is considered separately. So it takes its ups and downs as a function of total budget.

Mr. **Ray**. I see. It would be nice if it could be like the private sector where we take care of the operation and maintenance before we get into other programs. But I understand that is a problem there. Well, thank you Mr. Chairman, thank you gentlemen.

Mr. **Hutto**. Thank you, Mr. Ray. Mr. Machtley?

Mr. **Machtley**. I appreciate you being here, and I apologize for not being here for your original testimony. The active duty Air Force and the Navy, well there is a real shortage of pilots coming down the pipeline for a number of reasons. How much efficiency can you maintain based on active duty criteria of the pilots who transfer out of active duty to the Reserve force and do you have—I noticed you have a couple of F-4 squadrons you're trying to convert. Are you training in the Reserves on equipment which is really compatible with active duty so that pilots who are making the transfer are current relative to the active duty qualification standards?

General **Scheer**. Yes sir, almost across the board now, we have identical aircraft. We still have two or three units with the F- 4. The active does, but the F-4 will be going out of our program by 1992, I believe. So then what we are left with is identical. C-5's, 141's, KC-10's, A-10's, F-16's and so forth. So it is a direct transfer of skills and we take an individual from active to Reserve.

Now, he maintains the same level of readiness as he did when he was on active duty. He can do that, obviously because he is more highly trained when it comes to us with say, an average of 8 years experience in the cockpit. We can keep him at those levels of readiness that the one or 2 year man in the cockpit could not maintain.

But the active establishes the standards that he will maintain, and those are the same standards, for instance, as in Tactical Air Command (TAC). TAC requires of our F-16 guys exactly what they require of their own and then they come around and validates that we are meeting these standards. The only difference there is in the nuclear mission. We do not have that on an ongoing peacetime basis.

Mr. **Machtley**. Are you able to keep up the same relative flying hours?

General **Scheer**. No sir.

Mr. **Machtley**. As the active duty? That is what I am trying to get to.

General **Scheer**. Oh.

Mr. **Machtley**. In other words, let us compare apples and apples. The guy who has transferred from active duty to Reserve force, is he able to compete hour for hour, skill level for skill level, not is he as good a pilot.

General **Scheer**. Well, his skill level hasn't changed, but he is only going to fly half as much. For an operational readiness inspection, what the criteria for his bombing accuracy has to be, that is the same accuracy as an active duty pilot. The same way in any gunnery competitions. We always come out holding our own in those.

Skills do not change. Flying hours are about a half, and that is a direct ratio of what the costs are.

Mr. **Machtley**. Do you think that one half significantly impacts on the pilot's ability to be proficient?

General **Scheer**. Well, no sir, not by any grading criteria we have seen. Whether it is accuracy requirements, or bombing competitions, we have not seen any degradation. I would guess 70 percent of our pilots are also airline guys. So there is some synergism involved there in just flying competency. That perhaps is more than what we would care to realize. But no, across the board, whether it is competitions, whether it is inspections or flying safety, we do not see any difference.

General **Killey**. I would add to that, one reason that our flying activity level is lower and we can fly at a lower level and still maintain the same relative capability or standards, is because our experience level is higher. We have our people—that is the key to success in the Guard and Reserve. We are able to maintain our people in the unit longer, therefore we need less training time to maintain that level of proficiency.

Mr. **Machtley**. Most of the pilots who are flying are airline pilots and have somewhat flexible schedules, and we may have to augment active duty forces just to have enough pilots to complete the missions assigned. Is there flexible programs to permit Reserve pilots and units to go on something other than a very organized weekend or scheduled program?

General **Killey**. I'm not sure I understand.

Mr. **Machtley**. In other words, if an active duty unit is short pilots and you have reserve pilots and the reserve pilot really is an airline pilot who can get off Tuesdays and Wednesdays as opposed to the weekend, do we have any flexibility to permit a Reserve pilot to augment an active duty force on Tuesday and Wednesday?

General **Scheer**. In the airlift world, that is a good question. In the airlift world 50 percent of all the pilots in the C-5's and the C-141's, KC-10's and DC-9's are reservists. Most of those airplanes are active duty airplanes so the active duty owns the airplanes, furnishes half the pilots. We furnish the other half of the pilots and about a third of the maintenance. They fly together as often as not. You might have two of the crew active and two Reserve.

Mr. **Machtley**. They can do that during the week, or whenever?

General Scheer. Yes, they have to—like I said, they're with us usually about 110 days a year and those days are not a function of the weekend at all.

Mr. Machtley. The other area deals with the C-5's and other airlift airplanes. How do you use your Reserve capability in exercises? I am concerned about our ability to lift troops necessary. Are you cross pollinated oriented with Army or how do you drill and what do you believe your lift capabilities would be as Reserve force, both National Guard and active forces?

General Scheer. Let's say in a 141 we have like crew ratios, a three crew ratio in active and then our reserves have three. So in wartime yes, the lift capability would be equal. In peacetime though, we only fly those 141's about a third of what the active would. So obviously our peacetime lift capability is not near as great as what the active is. We spend most of our hours there training, keeping the crews current, and as long as we can carry some equipment and/or people in the course of training we do that.

In the 130 program, a large portion of our training mission is in joint training with the Army. Whether it is equipment and/or people air-dropped.

General Killey. Basically the same is true on the Air Guard side. To equate it, approximately 50 percent of our flying time in the airlift world is for guard lift. The other 50 percent is training.

Mr. Machtley. Are you lifting your National Guard specifically?

General Killey. No, it is a Total Force commitment.

Mr. Machtley. Force?

General Killey. Yes.

Mr. Machtley. Do you see both the Reserve and active duty multi-service, I mean do you see a coordinated effort that you feel comfortable with? Could we lift our troops if needed to Europe on any major scale?

General Scheer. I think if you looked at the central European wartime theater, we do not have enough lift today. I don't know what the percentage of the shortfall is. No, we could not do that. All I am saying is that during mobilization, and the capability of our lift units, would be equal to that of any others.

Mr. Machtley. Do you have an opinion as to how much lift we could get over?

General Scheer. No, I would take a wild guess of two thirds, but I don't know how good that would be.

Mr. Hutto. Thank you, Mr. Machtley. Mr. Tanner.

Mr. Tanner. Thank you very much, Mr. Chairman. I apologize for having been a little tardy. We have been juggling schedules. But I wanted to ask about, if I may, the Air Force Reserve Associate program concept. As I understand that program, it assigns Air Reserve units with active air units, the same aircraft, basically, or the same facility. Is that program working in your opinion and what are the advantages versus disadvantages of the same?

General Scheer. The program is working, and that program is in our airlift world and again in the tanker world. It works very well. It started out with the recognition that we have a lot of reserve pilots around who are flying equipment that is of little value to anybody. This is about how it was 15 to 20 years ago. There wasn't the money to buy the reservists new aircraft, so they said let's put him in with the active squadrons and let him participate there.

So that is how it was given birth, and it works well by anybody's standards. I think that when you talk to General Cassidy, the MAC commander, he would be the first to say that he couldn't do his mission today without that participation of the Reservists.

Mr. TANNER. What would be your reaction to, not criticism, but an idea that when the Reservist go to train or to drill under the associate concept, sometimes Reservists with more experience, perhaps more grade even than active members are placed under the supervision of perhaps less experienced active duty personnel in terms of training, and the friction that that may or may not generate, or is that a problem?

General SCHEER. No, I do not think that is a problem today, sir. We have our own chain of command in the associate unit. In other words a squadron commander of our Reserve personnel is a Reservist. Now I suppose it could happen in a mission where we might have half the crew and the active has half the crew, maybe the aircraft commander could be an active duty individual with less experience than the Reserve co-pilot. I do not know if that happens but it could. But I have never heard of that being discussed as a problem one way or the other.

Mr. TANNER. So if that happened anyway it would be an isolated incident?

General SCHEER. Yes, sir.

Mr. TANNER. Let me ask, I think it is page 7 of your statement when you talk about installing some defensive systems on some of the reserve equipment and you allude to a December incident where two commercially chartered DC-7's were attacked in North Africa. How many planes do we have—Reserve or Guard planes operating in Central and South America, not in terms of numbers, but do we have them there on a regular basis?

General SCHEER. Yes, sir. We share with the Guard a full time commitment in Panama of six C-130's that support our embassies in Central and South America. So there is considerable activity on a routine basis. Now those may be supplemented during exercises by more of the same aircraft or different aircraft. So we think it is a definite necessity for the C-130's to have some form of a defensive system but it doesn't have to be state-of-the-art or all that exotic. That will prevent, or at least help to prevent losing an airplane from a terrorist down there with a shoulder-mounted missile of some sort. I am happy to say that we are getting that, the miscellaneous funds that you people and this subcommittee have provided are going to that. We hope by mid-summer to have fielded a prototype C-130 with some of these defensive systems on and hope that leads to an across the board equipage of the fleet.

Mr. TANNER. So you are moving rapidly on that. I couldn't agree with you more. I think it is most important.

General KILLEY. Mr. Tanner, in addition to the C-130 rotation that we have in Central America and South America, with the Reserve, the Guard has an A-7 rotation. We maintain five A-7's down there, approximately 53 to 55 people around the year fulltime. We have 13 A-7 units that pick up this rotation 1 month at a time and then they rotate their people every 2 weeks. Their primary mission, is defense of the Canal Zone and they do training missions down there while they're down there. Coronet Cove, is what we call this rotation.

They are based out of Howard Air Force Base, same as our C-130's in Panama. I went down there a couple of years ago with the Governor of South Dakota and we have been doing that rotation since 1978. It has been a very successful rotation for us. This past year we did a similar rotation with three of our A-7 units in Germany. We didn't do it the full year, we did it for about a 3 month period. This exercise was called Creek Corsair, in which three of our A-7 units participated in a rotation.

Mr. TANNER. While we are talking about that, do you have a regular schedule to rotate Air Guard units now, not Reserve, Air Guard units to places such as Central America or other areas for training, for the summer camp for lack of a better term?

General KILLEY. In addition to those rotations that we just spoke of, the A-7 rotation to Howard Air Base in the Canal Zone and our 130's rotation, we project our formal training out on a 3 year schedule. All of our units are assigned to certain theaters of operation in case of mobilization.

Mr. MACHTLEY. Right, I am familiar with that.

General KILLEY. We train to those theaters every 3 years. So for that training period then, and usually it extends a little bit beyond the 2 week normal rotation sometimes upwards of a month, those units go to potential theaters of operation. That has been—actually that concept where the Air Force has woven us into their training programs. This concept of training has given us the level of readiness that we now maintain because we know what our limitations are and how we should train.

Mr. TANNER. When did that start?

General KILLEY. We call that program our Checkered Flag program with our fighter units. That started in the late 1970's around 1979, or 1980. It has really been the key to our success for maintaining our level of readiness.

Mr. TANNER. I couldn't agree with you more. From my experiences it makes good sense both militarily and also from civilian standpoint of public relations, from what I saw in Central America at any rate. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Tanner. Mr. Dornan.

Mr. DORNAN. Yes, thank you Mr. Chairman. I will try and move quickly here Mr. Chairman, because I know we want to get the next panel up. I think there is a great story on the Armenian airport, that I am sure you gentlemen sent to the press, but it wasn't the government because I was not aware of it until your statements, Generals. That is that the majority of humanitarian missions flown to Soviet Armenia, were done by the Air Guard and Air Reserve.

I went there with the majority on an A-34 after the December 7th earthquake. The Soviets were speaking of this, the Armenians. They were well aware of it, but I don't think our fellow Americans are—that the majority of humanitarian missions to Soviet Armenia were flown by the Air Guard and the Air Force Reserve. That the very number two flight to go was a Mississippi Guard crew flying it in.

It is just an absolute amazing thing that the Soviets finally, in a time of need, get to see the mainland people do this, they opened up to even military forces. They figure you have combat ready transport pilots bringing in aid to these people. You are certainly to be commended for that and I hope the story gets out more than just throughout the Guard and Reserve publications.

Just a couple of quick questions on fighters.

Unless I have not had somebody who has flown Air Force airplanes come up to me on the House floor or the Senate floor and advise me otherwise, I think I am the only member that has served both as an active duty fighter pilot, a Guard fighter pilot and a Reserve Air/Sea rescue pilot.

I can tell you when I was 5 years older in the Guard with maintenance men telling me war stories about maintaining Thunderbolts and Mustangs in World War II, as opposed to one experience I like to tell of a 19 year old asleep against the tire of my F-100, as I did my pre-flight I found his pliers at the intake, I took them over and handed them to this young man and said "I think I am ready to fly and I think you left the pliers in the intake, the engine would have devoured that nicely as we would have hoped," that kind of maintenance was not there in the Guard. I mean I thought they were old men, but now I am 15 years older, but these guys in their 40's maintaining these planes because they loved it.

F-86H's in the Guard and my gunnery scores on the same gunnery ranges I used at George, tragically going to be closed. On the cuddyback ranges as a Guard pilot at Van Nuys, all of my scores were 15 or 20 percent high as a reservist, Guardsman than it was as an active duty pilot.

So I think it is just too bad that this Congress just couldn't find the money in the budget crunch to do what Barry Goldwater had clout to do in Arizona, and that is to get brand new F-16 C's right off the assembly line into that Reserve squadron at Tucson. Obviously, it is called the Barry Goldwater fighter squadron.

But if we could get every A-10 and A-7 replaced with an A-16 all across the Reserve, then the Air Force shrinking from 37 wings to 35 would not hurt nearly as much. These are superb pilots and now they do something we never even thought of doing, fly across the Atlantic regularly on mobility moves. I just think it is eye-watering, the ability we are getting. Not to mention what Mr. Tanner said, that when a guy goes back to his workplace, as a lawyer or a used car salesman, whatever profession, or even from the Guard JAG office or a medical team and talks about his drill weekend, people realize that these weekend warriors are just that, combat ready warriors ready to keep the peace.

One thing I want to ask you about—SAR, because I did that at March Air Force base, HU-16's—does the Guard or the Reserve have HH53's, the big jolly green giants?

General KILLEY. No sir, the Guard has two units with HC-130's and HH-3's at Moffett in San Francisco, on Long Island, at Suffolk County and will have a third unit in Alaska at Kulis ANG and that is under negotiation right now. That unit will be activated in fiscal year 1990.

Mr. DORNAN. Is the Guard on line or the Reserve to get any MH-60's?

General Killey. Yes sir, the HH-3's will all be replaced with the MH-60's. They are already budgeted; procured and being modified for all three of units, at Moffett, Suffolk County and Kulis AK. In addition these units will receive the HC-130N tanker aircraft to support long range reserve operations.

Mr. Dornan. Is it the Reserve or the Guard that has the only-ski equipped 130's that are ice capped?

General Killey. That's our unit at Schenectedy, NY, sir.

Mr. Dornan. That used to be an F86H.

General Killey. You bet. The Navy also has had ski equipped aircraft that provided support to Antarctica. Our unit, in addition to doing its mission on the ice cap in Greenland of providing heavy supplies up there, picked up the Navy mission in Antarctica when the Navy aircraft went into depot maintenance.

Mr. Dornan. I have seen your Guard Cutlasses sitting alert down there at Panama, that is an excellent program too.

Just one final question, does the Reserve and the Guard together have a greater SAR capability, search and rescue, than the active forces? Is there more in the Reserve than active?

General Scheer. Probably about half now.

[The following information was received for the record:]

Search and Rescue (SAR) Capability

The Air Force is working to modernize the rescue forces and is currently acquiring MH-60G helicopters to replace the older HH-1 and HH-3 helicopters. A Force Structure Plan is being finalized and will define the Rescue Force Structure requirements. These continuing requirements will then be placed in the budgetary process for congressional approval. By early fiscal year 1991, the Air Reserve Component will compose approximately 72 percent of the Air Force rescue forces. The Air Force is working toward a 50-50 active/reserve mix toward the end of the century. The break down for early fiscal year 1991 is 32 percent for the Air National Guard (three units) and 40 percent for the Air Force Reserves (three units). In fiscal year 1991, there will be a Primary Aircraft Authorization (PAA) of 68 rescue aircraft. The Air National Guard will have twenty-two PAA and the Air Force Reserves will have twenty-seven PAA. The Air Reserve Component will have all the rescue dedicated HC-130 tankers. Tankers are necessary to air refuel active and reserve component rescue helicopters. The active duty HC-130 tankers are dedicated to special operations only.

Air National Guard rescue units will be converted to the MH-60G by fiscal year 91/1 and the 210th Air Rescue Squadron at Anchorage AK will be activated in fiscal year 90/3.

General Killey. The active component is placing more emphasis on that rescue mission, so currently I would think what General Scheer said is true. But I think you are going to see the Air Force getting more involved in that mission because we do realize the validity of that mission.

Mr. Dornan. My final request is just to send me a paper on that because I noticed with all the active duty sources, the one type of whistle-blowing that I think even the military respects is that in peacetime you tend to concentrate on how many weapons you can put on the target. Then when a war starts, God forbid another one does, then we start trying to retro-fit equipment to the SAR, search and rescue mission, and saying why didn't we buy equipment to do this mission in peacetime.

General Killey. Yes, sir.

Mr. Dornan. But I couldn't sit closer to a more beautiful painting with all the great Air Force and Navy and Marine Army art in this building. This picture here tells a story from Southeast Asia of more moments of heightened tension, guts, bravery and every single fighter in the area responding to back up your old A-1's left-over from the Korean War and this H-3 retro-fitted to the Jolly Green Giant mission. If that is going to be the burden of the Air Force Reserve and Guard to serve that others may live then let's get them as the first line equipment and Sonny Montgomery will carry the colors as will this Chairman. We will get them the best equipment in the world for that rescue mission.

I say that as someone who was plucked out of the Pacific by a Navy helicopter.

General KILLEY. We appreciate that, Mr. Dornan.

General SCHEER. Could I add just one thing?

Mr. HUTTO. Sure.

General SCHEER. One is that the Barry Goldwater fighter squadron is in Japan right now on its way home from an exercise and the Japanese General that ran that show said, "This is the unit I want to go to war with."

Mr. DORNAN. How long have they had their F-16C's?

General SCHEER. About a year, a little over a year.

Mr. DORNAN. Well, do you know who requested them to come down for an air show? I think you should consider President Ascona in Honduras. I'm sure the Ortego brothers will take note that a Reserve squadron can refuel once and be on the ramp at Pomarolla ready to participate in an air show over Tagusi Golpa. I will send you a memo on it.

General SCHEER. Thank you.

Mr. HUTTO. Mr. Lancaster, I understand you have a brief follow up. Would you please be brief because we have another panel?

Mr. LANCASTER. Very brief. Gentlemen in both of your statements you make similar statements which seem to be inconsistent with your statement about better than 90 percent combat ready or it may be an inconsistency.

[The following information was received for the record:]

ELECTRONIC CAPABILITY FOR THREAT DETECTION—GENERAL SCHEER

Combat readiness is measured in different ways. We measure the status of our resources and training via a system called SORTS which assigns a numerical rating indicating the level of resources and trained personnel possessed to undertake an assigned wartime mission. Additionally, we have operational readiness inspections that give us indications of how our people and equipment will perform if they are called upon to do so. Combat readiness in our airlift units is not graded against Electronic Countermeasures (ECM) equipment as this equipment is not currently authorized nor possessed by any Guard, Reserve or active airlift unit.

Electronic Countermeasures systems allow us to undertake missions with a higher probability of successful accomplishment. The Air Force and HQ MAC have defined what equipment includes Radar Warning Receivers, Missile Warning Receivers and Flare/Chaff dispensers. Due to funding constraints, this equipment has not been procured for tactical and strategic airlift aircraft.

ANG airlift forces are combat ready and able to perform our missions, but without modern ECM and self-protection systems for our aircraft, their ability to survive is diminished.

ELECTRONIC CAPABILITY FOR THREAT DETECTION—GENERAL KILLEY

Assessing combat readiness requires subjective judgment, as well as objective measuring criteria. The Active, Guard and Reserve use the status of resources and training system (SORTS), which assigns a numerical C-level indicating a relative measure of resources and trained personnel available to undertake an assigned wartime mission. To date, ECM and defensive systems are not measured in computing C-levels for Air Force Tactical and Strategic Airlift aircraft. Additionally, we have operational readiness and unit effectiveness inspections that give us indications of how our people will perform if they are called upon to do so.

ECM and defensive systems give us ability to survive in moderate to high threat areas. We have used the miscellaneous equipment money that the Congress has appropriated to purchase some of the needed ECM pods for our airlift aircraft.

We have not overstated our readiness. We, like the Guard have stated that we can perform our missions, but without modern ECM and defensive systems for our aircraft, their ability to survive is greatly diminished. Not all aircraft possess the entire suite of equipment available today. As we modernize our fleet of aircraft, we continue to add this equipment within the constraints of our budget.

Mr. LANCASTER. General Killey, in your statement on page 19 you say our tactical and strategic airlift forces have no electronic capability for threat detection and no self protection systems to insure completion of their assigned world wide mission. General Scheer, on your page 6, you state without this critical equipment our tactical fighter and airlift units lack the capability to penetrate enemy defenses and survive. Are those capabilities not a part of combat readiness or are they a part of combat readiness and you have overstated the degree of readiness of your units?

General SCHEER. I can answer that, I don't know if it is classified or not. Could we talk about it after this?

Mr. LANCASTER. Well, if it's classified.

Mr. HUTTO. We're in open meeting, do not answer anything that would be classified here.

General KILLEY. True, we don't have the state of the art electronic combat capability that we would like to have in our pods, but that does not prevent us from accomplishing the mission. It increases the risk of accomplishing the mission. That is not what General Scheer is alluding to, when you get into what equipment is required to be considered combat ready, that is classified, and that's why he didn't really want to talk about the specifics of that.

Mr. LANCASTER. If you could each provide us with a classified answer to that question for the record.

Mr. HUTTO. Thank you, Mr. Lancaster, and Generals Scheer and Killey, we thank you very much for giving us a very good picture of the Reserve and Guard and we will have further questions that we would appreciate your responding promptly to the committee.

General SCHEER. Yes, sir.

Mr. HUTTO. We look forward to working with you.

General KILLEY. Thank you.

Mr. HUTTO. We would ask the next panel to please come forward for the Marine Corps and for the Navy. We are pleased to have with us this afternoon representing the Marine Corps and the Navy, Maj. Gen. Edmund P. Looney, Junior, Director of the Marine Corps Reserve, and Rear Adm. F. N. Smith, the Director of the Naval Reserve. We are glad to have you both with us.

Admiral Smith we will start with you. You may present your statement at this time.

STATEMENT OF REAR ADM. F. N. SMITH, DIRECTOR OF NAVAL RESERVE

Admiral SMITH. Thank you, Mr. Chairman. I appreciate being with you this afternoon and I would like to make a brief statement.

Mr. Hutto. All right sir, if you could summarize we would be happy to put your entire statement in the record.

Admiral Smith. Yes sir. The Naval Reserve is an economical and proven way to maintain ready force structure and support our active forces. At the cost of 3.1 percent of Total Obligational Authority, the Naval Reserve provides the Navy a 20 percent personnel multiplier, plus all the ship's, aircraft and other equipment capability in the Naval Reserve.

Today's Naval Reserve has increased by more than 50 percent in the 1980's, concurrent with the growth and modernization of the fleet. Most of those years saw increased investment in defense. The growth of the Reserve forces as a part of the Total Force started in the late 1970's. The structure and availability of this force was built around a total mobilization scenario. During this growth, little, if any, thought was given to the need for the Reserve short of total mobilization, and defense budgets were adequate enough for the Armed Services to retain on active duty at least parts of most wartime missions even though the likelihood of their need in peacetime was very slim.

Now, Mr. Chairman, things have changed. The likelihood of total mobilization is lessening, while the probability of low intensity conflict or emergent operational missions remains high. Defense spending is under close scrutiny and there is wide-spread discussion about putting more things into the Reserve.

So we should ask, what is the future role of the Reserve, particularly the Naval Reserve—what is the proper force mix of active duty and Reserve? Can the Naval Reserve take on additional missions?

It would be easy to attempt to resolve some of these very serious budget questions that challenge us this year by saying let's put this program in the Reserve and perhaps half of that one too.

Make no mistake, Mr. Chairman, Naval Reserve stands ready to accept any program that Congress mandates. You have my assurance that we in the Naval Reserve will do our best to provide an environment in which those programs maintain fleet standards. But, as Chief of Naval Reserve, I believe that I have an obligation to the Navy and to Congress to present some cautioning and concerns before such actions are considered. There are limits as to which programs can effectively be placed in the Naval Reserve, especially given the manpower constraints under which we operate.

In other words, if Congress wants to give the Naval Reserve additional responsibilities, it must also be given the recognition that we will need more active duty personnel and operating funds for these programs.

But that is probably the obvious. What is less obvious, Mr. Chairman, is what I call the "hidden question" that is a part of every decision to assign new responsibility or missions to the Reserve and must be a part of any addressal of Active/Reserve force mix. That question is, "Will those Reserve assets be available if needed during crisis periods short of total mobilization?"

I have no further comment, I will take questions, sir.

Prepared Statement of Rear Adm. F. N. Smith, USNR

Mr. Chairman and members of the committee:

I am pleased to once again have the opportunity to appear before your committee.

I would like to begin by paying tribute to all of you for your support of the Navy and your understanding of the role the Naval Reserve plays in our national defense. When I first came up here four years ago as a recalled Selected Reservist, I felt a strong obligation to bring to you an accurate report of our status in pursuit of readiness for mobilization and a clear picture of future obstacles and requirements.

Looking back at the progress that the Naval Reserve has made as a part of Navy's Total Force -- I can say without reservation that it would not have been achieved without your strong direction and follow on support. On behalf of Navy and all our Reservists, I thank you.

It is tempting on the occasion of these hearings to go on at length about details of the progress we have made in the past year. And, no doubt about it, we are a stronger and more ready Naval Reserve because of what was done in 1988.

But I will pass up the opportunity to go into great detail now, and before I look back and summarize some of the areas of last year's progress, I would like for a moment to look ahead, to look at what I see the future holds for the Naval Reserve.

We all know, we have to plan now for Naval programs that will become reality in the next decade and, indeed, the next century. One of the things we don't have to do is convince each other that a strong Naval Reserve is a vital part of our military force.

Fortunately, we agreed on the value and importance of the Reserve program years ago. So that today, the Naval Reserve is a respected and well-established part of our defense force, an economical and proven way to maintain ready force structure and support our active forces. For the cost of 3.1% of Total Obligational Authority (TOA), the Naval Reserve provides Navy a 20% force personnel multiplier plus all the ships, aircraft and other equipment capability in the Naval Reserve.

Today's Naval Reserve has increased by more than 50% in the 1980s concurrent with the growth and modernization of the fleet. Most of those years saw increased investment in defense.

The growth of all Reserve forces started in the late '70s as an essential part of our national defense deterrent and critical to national policy in the event of mobilization. During this growth little, if any, thought was given to the need for the Reserve, short of preparing for total mobilization. Defense budgets were adequate enough for the armed services to retain on active duty at least parts of most wartime mission areas even though the likelihood of their need in peacetime was very slim.

But now things have changed. The likelihood of total mobilization is lessening while the probability of low intensity conflict or emergent operational missions remains high. Defense spending is under close scrutiny and there is widespread discussion about putting more into the Reserve.

And so we should ask, what is the future role of the Naval Reserve? What is the proper force mix of active duty and Reserve? Can the Naval Reserve take on additional missions? It would be easy to attempt to resolve some of the very serious budget problems that challenge us this year by saying: "Let's put this program in the Reserves and give them half of that program, too."

Make no mistake, Mr. Chairman. We stand ready to accept any program that Congress mandates. And you have my assurance that we in the Naval Reserve will do our best to provide an environment in which that program maintains fleet standards.

But, as Chief of Naval Reserve, I believe that I have an obligation to Navy and to Congress to present some cautioning concerns before such actions are considered.

There are limits as to which programs can effectively be placed in the Naval Reserve, especially given the manpower constraints under which we operate. In other words, if Congress wants to give the Naval Reserve additional responsibilities, there must also be a recognition that we will need more active-duty manpower and operating funds for those programs. That's probably the obvious.

But what may be less obvious, Mr. Chairman, is what I call the "hidden question" that is part of every decision to assign a new responsibility or missions to the Reserve. That question is, "Will those Reserve assets be available if needed short of total mobilization?"

Let me now turn to a summary of progress we have made in the Naval Reserve over the past year.

As the size of our force stabilized in 1988, we accelerated our effort to improve its quality. The results have been striking.

Our bottom line has always been readiness -- "Are we ready to join the fleet and hit the deck running." Today I am happy to report that our readiness has never been higher. In December, a review of our surface reinforcing and sustaining units showed that 63 percent were rated at R-1 or R-2, the highest levels. That is a sharp increase over the 47 percent at that level at the end of Fiscal 1987 and 58 percent at the end of Fiscal 1988. That readiness improvement is a direct result of better training. The training initiatives in our Surface Program to Upgrade Readiness are showing results. The readiness of our commissioned or hardware units continues at a comparable level with active duty counterparts.

For Fiscal 1990, a Selected Reserve end-strength of 153,200 is requested. This includes 22,320 active duty Reservists who provide the vital full-time support needed to train our Reservists. This is a slight increase from the fiscal '89 request which called for 152,600 end strength and 21,991 full-time support personnel.

With our new Reserve Recruiting Command we will be more effective in the tougher recruiting environment and will target our recruiting effort to fleet experienced sailors with the specific skills and qualifications. In addition, one of our major goals continues to be to fill the current shortfall of qualified medical personnel with the specialities required to meet wartime needs.

Like all bureaucracies, ours has had its share of problems with paperwork. Automation to limit the time spent on basic administration has been one of our major initiatives -- and, I'm very happy to say, one of our greatest successes. We're using a new management information system and data processors to reduce paperwork and administrative tasks, thus freeing our sailors to spend more time training.

As we have grown in the Naval Reserve by more than 50% in the past seven years we have also allowed advancement stagnation to creep in. Many of our junior enlisted, the lifeblood of the Naval Reserve, are becoming disenchanted by poor promotion opportunities. The top of the pyramid had become too large. We are correcting that with a "High Year Tenure" program which directs that people either earn promotions in a reasonable time or drop out of the Selected Reserve. We'll phase this program in over several years so there won't be any unfair hardships and individuals will have a reasonable opportunity to meet the criteria for retention.

The bottom line on all these changes will be a younger, better trained enlisted corps, that is more responsive to fleet needs, and more ready to serve.

We are continuing to delegate authority down the chain of command to give our commanding officers more freedom to make decisions closer to the people who benefit from them -- the individual Reservists.

In the area of hardware units there have also been changes and advancements.

The transfers in the Pacific Fleet of one FFG-7 and one FF-1052 class frigate, scheduled for FY 1988, were delayed, because of Mideast Force requirements. They are now scheduled for September 1989 and with the scheduled transfer of two Atlantic Fleet FFG-7s in FY 90, our NRF Frigate Force levels will reach the scheduled 18 FFG-7s and 8 FF-1052s.

The Naval Reserve is also programmed to add three amphibious ships, an LST, LPD and LSD between FY 90 and 92. As currently scheduled, the number of ships in the NRF will reach 54 by FY 92, up from 48 in FY 89.

In the Naval Air Reserve, we completed the transition into the F-14 Tomcats, and have begun the transition to A-6E Intruder all weather medium attack aircraft and KA-6 tankers.

In October we commissioned the first of two Helicopter Combat Support (Special) HCS Squadrons. They will fly the new HH-60H aircraft that combines many missions previously flown by different squadrons. Our second Helicopter Mine Countermeasure (HM) squadron is scheduled to stand up during the current year.

The major aviation problem we see is that our P-3 force, the P-3As and the P-3Bs that are so vital to our maritime patrol program, are getting old. Unless action is taken soon, they will reach the end of their service lives before replacement aircraft are available. The introduction of LRAACA -- Long Range Air ASW Capable Aircraft will help.

In addition to actual accomplishments, your efforts to date on improving Reserve management through the establishment of a Reserve Officer Personnel Management Act (ROPMA) has our total support.

That, in brief, is where we stand, Mr. Chairman.

We have a much improved, more capable Naval Reserve. Our growth has stabilized and we are working on major initiatives to improve the quality of our personnel and the training they receive.

I have seen our Reservists in action this past year in the heat of the Persian Gulf and the cold of the Norwegian Sea. They are outstanding men and women, the pride of our nation and, most certainly, my pride. It has been my pleasure to have led them, with your help, toward a better and more responsive role in the National defense.

Now I will be happy to answer your questions.

Mr. HUTTO. All right, thank you, Admiral. General Looney.

STATEMENT OF MAJ. GEN. EDMUND P. LOONEY, JR., USMC, ASSISTANT DEPUTY CHIEF OF STAFF FOR MANPOWER AND RESERVE AFFAIRS FOR RESERVE AFFAIRS

General LOONEY. Thank you, Mr. Chairman. I have a short opening statement, and I would like my detailed statement put in the record with your permission, sir.

Mr. HUTTO. So ordered, yes.

General LOONEY. Thank you.

Mr. Chairman, distinguished members of the subcommittee, it is a pleasure to appear before you on behalf of the Marine Corps and Marine Corps Reserve. The Marine Corps Reserve with your help has continued to improve its readiness; the quality of our personnel equipment and facilities are at an all time high.

We have been able to provide more meaningful, productive interesting training and quality leadership which has resulted in a 9 percent reduction of our attrition rate. Our Reserve units continue to improve their level of readiness. Funding levels contained in my statement—which I might add supports the President's budget—are vital to our continued development as a full contributor of the total force.

A modest increase in manpower requested is for full- time support personnel. This manpower, if approved, will be used to pay our fair share of the combat training initiatives and to support the continued aviation modernization. With your support the Marine Corps Reserve will continue to enhance its readiness.

I thank you for your interest and I will be happy to answer any questions you may have, sir.

[The prepared statement of General Looney follows:]

NOT FOR PUBLICATION UNTIL RELEASED
BY THE HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF
MAJOR GENERAL E. P. LOONEY, JR.
UNITED STATES MARINE CORPS
ASSISTANT DEPUTY CHIEF OF STAFF FOR MANPOWER
AND RESERVE AFFAIRS FOR RESERVE AFFAIRS
BEFORE THE
SUBCOMMITTEE ON READINESS
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
CONCERNING
USNR/USMCR READINESS
ON
9 MARCH 1989

NOT FOR PUBLICATION UNTIL RELEASED
BY THE HOUSE ARMED SERVICES COMMITTEE

TABLE OF CONTENTS

SECTION PAGE

BIOGRAPHY OF MAJOR GENERAL E. P. LOONEY, JR. USMC i

INTRODUCTION 1

RESERVE ROLES 3

FORCE STRUCTURE 5

- GROUND STRUCTURE 7
- AVIATION STRUCTURE 8
- FULL-TIME SUPPORT 8
- INDIVIDUAL MOBILIZATION AUGMENTEES 10
- INDIVIDUAL READY RESERVE 11

MODERNIZATION 11

- EQUIPMENT 12
- FACILITIES 13

TRAINING AND READINESS 15

- UNIT TRAINING 17
- TRAINING AND INNOVATION 19
- INDIVIDUAL TRAINING 21

BUDGET 22

CONCLUSION 27

UNITED STATES MARINE CORPS
DIVISION OF PUBLIC AFFAIRS • HEADQUARTERS MARINE CORPS
WASHINGTON, D.C. 20380 • TELEPHONE (202) 694-4309

MAJOR GENERAL EDMUND P. LOONEY JR., USMC

Major General Edmund P. Looney Jr., is the Assistant Deputy Chief of Staff for Manpower and Reserve Affairs, for Reserve Affairs, Headquarters Marine Corps, Washington, D.C.

Born in Brooklyn, New York on September 30, 1934, General Looney graduated from Brooklyn's St. John's Preparatory School in 1952 and subsequently earned a bachelor's degree from the St. John's University School of Commerce in 1956. While attending college, he joined the Marine Platoon Leaders Class in December 1952, and was commissioned a second lieutenant in June 1956. He earned a master's degree in Human Resource Management from Pepperdine University in 1977.

After completing the officers' basic course in March 1957, he transferred to the 3d Marine Division in Japan, where he served for a year as a rifle platoon commander and battalion staff officer in the 2d Battalion, 3d Marines. In 1958, he was released from active duty, but participated in the activities of a reserve unit at Garden City, N.Y. Returning to active duty in 1960, he became the commanding officer of a rifle company in the 2d Battalion, 2d Marine Regiment, 2d Marine Division, Camp Lejeune, N.C. He was promoted to captain in October 1961.

Subsequent assignments include duty as the 2d Marine Division logistical operations officer, June 1962-July 1963; 2d Marine Aircraft Wing logistical operations officer, July 1963-March 1965; advisor to a Vietnamese infantry battalion, March 1965-April 1966; logistics program officer at Headquarters Marine Corps, April 1966-July 1970; a variety of assignments with the 1st Marine Division in Vietnam, July 1970-July 1971; operations officer on the staff of the Commander, Strike Force South at Naples, Italy, February 1972-1975; new ships construction officer, Headquarters Marine Corps, January 1975-August 1977; duty with the 1st Marine Division from July 1978-June 1980, serving first as deputy chief of staff, G-3, and later as assistant chief of staff, G-4; and Commanding Officer of the 31st Marine Amphibious Unit in the Western Pacific and Indian Ocean, from June 1980-June 1981. He was promoted to major in August 1966, to lieutenant colonel in April 1973 and to colonel in November 1978.

During July 1981, he was assigned as plans officer, G-3, 1st Marine Amphibious Force at Camp Pendleton, Calif. While serving in this capacity, he was selected for promotion to brigadier general. He was advanced to that grade on July 2, 1982 and assumed command of the Marine Corps Logistics Base, Barstow, Calif., in July 1982. On June 6, 1984, he was assigned duty as the Commanding General, 6th Marine Amphibious Brigade, FMF, Atlantic, Camp Lejeune, North Carolina. He was selected for promotion to major general in December 1986 and was promoted to that grade on Sept. 1, 1987. He was assigned duty as the Director of Logistics, Plans, Policies and Strategic Mobility Division, Installations and Logistics Department, Headquarters Marine Corps, on Sept. 16, 1987. General Looney served in this capacity until Jan. 3, 1989, when he assumed his current assignment.

In addition to The Basic School, General Looney's military schooling includes the NATO Defense College, Rome, Italy, graduating in February 1972, and the Industrial College of the Armed Forces in Washington, D.C., graduating in June 1978.

His decorations include: the Bronze Star Medal with Combat "V" and gold star in lieu of a second award with Combat "V"; Meritorious Service Medal; Combat Action Ribbon; Navy Unit Commendation; Meritorious Unit Commendation; Marine Corps Expeditionary Medal with two bronze stars; Armed Forces Expeditionary Medal; National Defense Service Medal; Vietnam Service Medal with three bronze stars; Humanitarian Service Medal; Sea Service Deployment Ribbon with two bronze stars; Republic of Vietnam Cross of Gallantry with silver star (two awards); and a number of other awards issued by the Republic of Vietnam.

Major General Looney and his wife, the former Sheila T. McDermott of Hasbrouck Heights, N.J., have three daughters and a son: Mary, a first lieutenant in the United States Air Force, Tara, Kathryn, and Patrick, a Marine first lieutenant.

(Revised Jan. 4, 1989 HQMC)

PREPARED STATEMENT OF MAJOR GENERAL E. P. LOONEY, JR. ASSISTANT DEPUTY CHIEF OF STAFF FOR MANPOWER AND RESERVE AFFAIRS FOR RESERVE AFFAIRS

Mr. Chairman, distinguished members of the Committee, it is indeed a privilege to report to you the current posture and future programs of the Marine Corps Reserve. This is my first opportunity to address this committee since becoming the Assistant Deputy Chief of Staff for Manpower and Reserve Affairs for Reserve Affairs. On December 1, 1988 the position of Deputy Chief of Staff of Reserve Affairs was elevated to the three star level. LtGen John Hudson was nominated to assume the dual role of Deputy Chief of Staff for Manpower and Reserve Affairs and he was assigned two Assistant Deputy Chiefs of Staff, one for Manpower and one for Reserve Affairs. The integration of the Reserves with Manpower was a major milestone in the Commandants continuing efforts to identify the Marine Corps Reserve as, in fact, a full partner in the Total Force. The integration of Reserve and Active components also further capitalizes on the personnel policy and management expertise resident within our Manpower Department since the majority of our personnel issues are one in the same whether Active or Reserve.

The combat readiness and war fighting capability of the Marine Corps Reserve is at an all time high. Your continuing support for our manpower, equipment, facilities and sustainment requirements, has greatly enhanced our readiness and warfighting capabilities.

Evidence of our enhanced capability:

- Achievement of 100 percent of our non-prior service recruiting goals, including 98 percent high school graduates
- 9.93% reduction in Selected Marine Corps Reserve personnel turnover
- Attainment of end strength to within one-tenth of 1 percent of the established goal
- Substantial equipment modernization in air, ground and logistics organizations
- Participation by over 23,000 reservists in major exercises within the Continental United States and several exercises abroad including Germany, Norway, Egypt, Korea, Philippines and Thailand.
- Use of simulators and trainers to improve individual and crew operation skills on our weapons systems

With the continued support of the Congress, the full potential of the U.S. Marine Corps Reserve's capability to contribute to the national defense as part of the Total Force will be realized.

The framework for our future continues to be based on three fundamental strategies:

(1) Recruit, train, and retain only quality personnel.

(2) Maintain the modernization effort to provide quality equipment.

(3) Continue to improve the Active and Reserve integration of personnel and equipment.

RESERVE ROLES

The thrust of Total Force integration to achieve an optimum balance between peacetime monetary expenditures and a wartime fighting force is critical when describing the roles of the Marine Corps Reserve.

The augmentating and reinforcing roles mandated by Defense Guidance are the primary mobilization missions of our Reserve in support of the Active component. The strategy the Corps has pursued to fulfill the nation's expectation of its premier force-in-readiness is dependent upon our ability to quickly respond to aggression with the Active force, and then, if required, to rapidly and efficiently mobilize the Reserve force for expansion of the Active force and to provide sustainability during a major conflict or national emergency in order to project integrated combat power.

We do not anticipate any change to these roles in the near future. The force structure is designed to support the needs of the Active Force. When required the Reserve will augment certain critical requirements to provide a balanced Marine Total Force capability.

Considered as a Total Force, 25 percent of the Marine Corps' force structure and 32 percent of the trained manpower available to the Marine Corps are in the Reserve. The following chart depicts the major contributions made by the Reserve to the Total Force.

MARINE CORPS RESERVE CONTRIBUTIONS TO THE TOTAL MARINE CORPS

Unit Types[1]	Percent of Total Marine Corps
Civil Affairs Groups	100
Salvage Platoons	100
Bulk Fuel Companies	62
Force Reconnaissance Units	50
Air/Naval Gunfire Liaison Companies (ANGLICO)	50
Force Service Support Group Military Police	40
Tank Battalions	40
Beach and Port Companies	40
Heavy Artillery Batteries	33
Infantry Battalions	27
Division Reconnaissance Battalions	25
Light Anti-Aircraft Missile Battalions (LAAM)	25
Marine Air Control Group (MACG)	25
Marine Wing Support Group (MWSG)	25
Force Service Support Group (FSSG)	25
Low Altitude Air Defense Batteries (LAAD)	25

---

[1] Percentages determined by counting same type units (data as of January 30, 1989).

Aircraft Types[2]

Observation Aircraft (VMO)	33
Aerial Refueling Aircraft (VMGR)	29
Light Attack Aircraft (VMA)	28
Fighter Aircraft (VMFA)	20
Electronic Warfare Aircraft (VMAQ)	18
Helicopters (HML, HMA, HMM, HMH)	18

The Individual Ready Reserve will continue to provide a pool of pre-trained individual manpower capable of rapid assimilation into the Active Force to meet our wartime requirements. Information on the composition and strength of the IRR will be addressed later.

FORCE STRUCTURE

The Marine Corps Reserve structure has developed as a Division, Wing, and FSSG (DWT Division-Wing-Team) like the Active forces. The DWT is capable of providing trained units to the Active Force to increase war fighting capability and provide sustainability if mobilization is directed or the Presidential Call Up is executed. Similarity of Reserve and Active Force structure greatly enhances and streamlines the process of integrating Reserve component units with the active Force upon mobilization. Combat readiness is enhanced and training costs are minimized by retaining similarity of structure.

---

[2] Percentages determined by counting primary authorized aircraft (data as of January 30, 1989).

To improve readiness, we continue to emphasize quality of manpower in the 4th DWT. All nonprior service accessions are recruited for a specific military occupational specialty. Recruiting efforts for prior service Marines are designed to match military skills and experience to specific unit billet requirements or these Marines are required to retrain for specific military occupational specialties.

Retention of our Marine reservists improved considerably during Fiscal Year 1988. The turnover rate fell from 30 percent in Fiscal Year 1987 to 27 percent in Fiscal Year 1988. This improvement is attributed to increased command attention, quality leadership and meaningful productive training.

The Fiscal Year 1988 approved end strength was 43,556, an increase of 1303 over Fiscal Year 1987. The Fiscal Year 1989 plan is straight-lined from Fiscal Year 1988 with a goal of 43,600. The Fiscal Year 1990 manpower plan calls for a modest increase of 400, consisting primarily of Full-Time Support personnel to augment Marine Battle Skills Training and for structure growth in the 4th Marine Aircraft Wing to support our Total Force warfighting initiatives.

GROUND STRUCTURE

Structural changes to support the warfighting initiatives include:

- Augmenting 16 active duty infantry battalions with a rifle company.
- Adding scout infantry to the LAV BN
- Adding three General Support artillery battalions and two General Support artillery batteries.
- Augmenting the two active duty tank battalions with two tank companies.
- Transferring from the active structure to the Reserve component three Bulk Fuel Companies, and three (each) Bridge, Longshoreman, Bakery, Ration, Salvage, and Grave Registration platoons.

The Bulk Fuel Cos and Bridge Platoons will be in a drilling status and the remaining units will be activated only when operational requirements demand.

AVIATION STRUCTURE

The 4th Marine Aircraft Wing is an integral part of the Marine Corps warfighting and Total Force initiatives. The 4th Marine Aircraft Wing will:

- Add six LAAD (Light Anti-Aircraft Defense) platoons armed with Stinger missiles.
- Absorb one LAAM battery armed with Hawk missiles.
- Upgrade its fleet of aging airframes.

The current plan calls for replacing the CH-46 with the MV-22, the AH-1J with the AH-1W and the A-4M and F-4 with the F/A -18. The replacement schedule commences in Fiscal Year 1989 and extends to the out years.

FULL-TIME SUPPORT

Approximately 5,000 officers and enlisted personnel from the Active Marine Corps, 340 civil service personnel, and 1945 reservists serving on active duty in the Full-Time Support Program support the Marine Corps Reserve. Since the Marine Corps does not use the Military Technician Program, and Active component end strength is a finite number, the Marine Corps Reserve could not meet present and future demands without the Full-Time Support Program.

Active component personnel provide current operational expertise, while reservists provide a more complete understanding of Reserve programs and issues confronting drilling reservists. Full-Time Support personnel (termed Active Guard/Reserve in other services), contribute substantially in policy development, administration, and execution of the Reserve component of the Total Force programs. Duties are performed primarily in the areas of administration, recruiting, training, and logistical/technical support. Most personnel are assigned to 4th Marine Division and 4th Marine Aircraft Wing units. A limited number of personnel provide management support at the Marine Corps Reserve Support Center (MCRSC) in Kansas City and various Reserve Support Units (RSU's) of major Marine Corps bases throughout the country. This deliberate mix of personnel ensures the Marine Corps Reserve's mobilization capabilities are maintained in the highest state of readiness.

Our Fiscal Year 1988 Full-Time Support end strength was on target with a final count of 1945. There is no growth in our Fiscal Year 1989 approved strength. In Fiscal Year 1990 we have requested a modest increase of 356 to build to an end strength to 2,301. This growth is essential to support Total Force war fighting initiatives. The additional personnel will be assigned to billets supporting Marine Combat Training initiatives and structure modifications in the 4th Marine Aircraft Wing.

INDIVIDUAL MOBILIZATION AUGMENTEES

A percentage of drilling reservists, called Individual Mobilization Augmentees (IMAs) train side-by-side with their active counterparts on staffs within the supporting establishment. Training in the same work environment as is anticipated for wartime, the duties performed ensure the Reservists smooth transition and increased productivity on mobilization. These assignments permit them to participate in peacetime staffing evaluations and to broaden their experience.

The utilization of these IMAs has proven effective-demonstrated during the Grenada operations and hostile action in Beirut, key headquarters staff sections were manned by IMAs. Also, during major JCS/NATO mobilization exercises, bases, stations and major headquarters activate operational control groups manned by IMAs. A significant portion of the IMA program is devoted to the Marine Corps Mobilization program, providing the network of mobilization stations located throughout the country. These sites are critical to the process of rapidly assimilating members of the IRR and retirees into the wartime structure during mobilization.

INDIVIDUAL READY RESERVE

The strength of the Individual Ready Reserve at the end of Fiscal Year 1988 was 42,389. The inception of the 8-year military service obligation will cause the Individual Ready Reserve population to grow to 54,000 by Fiscal Year 1990 and exceed 80,000 by Fiscal Year 1992.

In Fiscal Year 1988 we continued the mandatory Individual Ready Reserve recall, screening 83% of the eligible population. Among the benefits realized from the exercise were the identification of Ready Reservists whose address of record was incorrect, and to a limited extent, those requiring refresher training. The recall process led to the review and revision of our mobilization procedures which will pay dividends should mobilization ever be ordered.

MODERNIZATION

Modern combat equipment is essential to readiness. Our acquisition profiles will continue to provide for concurrent fielding of equipment to the Total Force. This single acquisition concept determines total requirements for the entire U.S. Marine Corps. Our future modernization efforts will focus on equipment and facilities.

EQUIPMENT

. Commonality of equipment permits the interoperability of the Total Force from a training and maintenance perspective. To this end, horizontal fielding has always been considered paramount to enhance our partnership. Equipment procured by the National Guard and Reserve funding posture of recent years and delivered:

- Light Armored Vehicle (LAV)
- Squad Level Radio (AN/PRC-68A)
- Manpacked Satellite Communication Terminal (AN/PSC-3)
- Digital Communications Terminal (AN/PSC-2)
- Various test and calibration equipment
- MK19 40mm Machine Gun
- Improved Direct Air Support Center (IDASC)
- Lightweight Decontamination Unit.
- LAV-25 Gunnery Training Systems
- Short-Term Anti-Jam (STAJ) Compatible High Frequency Radios

The delivery of new equipment to the Reserve units creates the demand for training simulators to minimize training costs. These devices improve individual and crew proficiency, and provide cost-effective training during monthly drill periods.

We can look forward to receiving the following trainers and simulators in the near future:

- Stinger Trainers
- Motor Transport Maintenance and Operator Trainers
- Radar Equipment Maintenance and Operator Trainers

This year through your efforts we are planning to procure the following equipment:

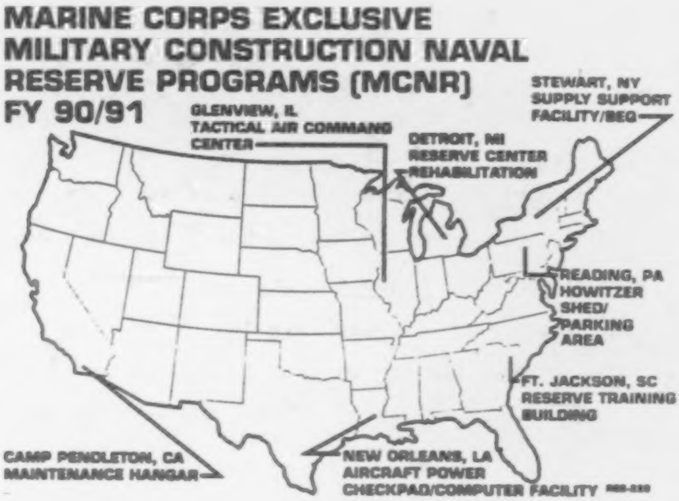
SPECIAL CONGRESSIONAL FUNDING

ITEM	COST(M)	QTY
Lightweight Decon	.740	50
Short Term Anti-Jam Compatible	2.064	299
AN/TPS-32 Solid State Driver	.520	2
Digital Communications Terminal	2.394	171
Marine Corps Tank Full-Crew Simulation Trainer (MCTFIST)	1.5	6
Tractors	2.4	29
MCTFIST Video Tropical/Cold Weather scenario	.369	2
(Cost Overhead Factor)	.013	
	10.00 M	

FACILITIES

Marine Corps Reserve facilities are located at 193 sites throughout the United States and in Puerto Rico. These sites provide the training centers, equipment storage, and administrative support. We currently have 167 ground and 26 aviation sites. The Marine Corps owns facilities at 23 of these sites, manages 31, and has tenant units aboard four Marine Corps Air Stations. One training center is collocated with the 1st Marine Corps District in New York and the remaining 139 sites are occupied jointly with the Navy, Army National Guard, and/or Air Guard.

Beginning with the Fiscal Year 1990/1991 budget request, the Marine Corps will contribute a portion of the Total Obligation Authority to Military Construction Naval Reserve (MCNR) program for the construction of Marine Corps exclusive-use projects. In Fiscal Year 1990, the Marine Corps will fund seven projects totaling $9 million (19 percent of the major construction portion of the MCNR program). These projects support both the new and existing missions and are depicted on the map.



MARINE CORPS EXCLUSIVE MILITARY CONSTRUCTION NAVAL RESERVE PROGRAMS (MCNR) FY 90/91

GLENVIEW, IL
TACTICAL AIR COMMAND CENTER
STEWART, NY
SUPPLY SUPPORT FACILITY/BEQ
DETROIT, MI
RESERVE CENTER REHABILITATION
READING, PA
HOWITZER SHED/ PARKING AREA
FT. JACKSON, SC
RESERVE TRAINING BUILDING
CAMP PENDLETON, CA
MAINTENANCE HANGAR
NEW ORLEANS, LA
AIRCRAFT POWER CHECKPAD/COMPUTER FACILITY

TRAINING AND READINESS

Success on the modern battlefield requires the integration of manpower and equipment through an effective and imaginative training program. Special exercises and other training programs, emphasize Active/Reserve component integration and combat arms training. By providing a highly trained Reserve manpower resource from the Selected Marine Corps Reserve units or if necessary IMA Marines can augment/reinforce the Active force in the event of mobilization.

The recently established Marine Battle Skills Training program is designed to provide all Marines, regardless of military occupational specialty, with fundamental combat arms training. The program not only provides initial combat arms training but also, a method for maintaining combat skills once a Marine joins a unit. Programs aimed at professional development and military occupational specialty qualification are integral parts of the equation and imperative to successful warfighting.

While no service-wide defined measure of "true combat readiness" exists for Reserve units, the Status of Resources and Training System (SORTS) is an individual indicator of combat readiness monitored by higher commands and HQMC to achieve and maintain high resource levels. The SORTS measures readiness and assigns C-levels in four resource areas; personnel, training, equipment supply and equipment condition. An overall C-level is assigned to each reporting unit. The two most critical limiting factors on Reserve SORTS C-Levels are MOS mismatch (with regard to personnel readiness) and equipment supply.

The MOS mismatch contributes to lowered C-levels in the area of personnel. It reflects a personnel distributions problem inherent to the Reserve. Historically, prior service Marines returning to their home towns were allowed to join local Reserve units regardless of their MOS. Though their MOS helped fill overall Reserve needs, it often contributed to that particular unit's mismatch problem.

For the past year, prior-service recruiters have solicited individuals to fill specific Table of Organization line numbers. This targeted recruiting has begun to improve the MOS match of individual units. When mobilized any remaining mismatch will be corrected by lateral moves/retraining, redistribution of personnel at stations of initial assignment, and the activation of IRRs. These actions will help satisfy requirements of some hard to fill MOSs, particularly in Combat Service Support Units.

Equipment readiness is high, and those early deploying units have received priority in the distribution of both equipment training allowances and stores assets. Further, the prototype of the Reserve Unit Priority System (RUPS), a PC-based system currently being developed by OSD was used during the last half of Fiscal Year 1988. The use of the RUPS Equipment Module emphasized controlled care and distribution of equipment throughout the Reserve component. Its continued use and refinement will lead to more efficient distribution.

By giving visibility to methods of distribution and maintenance to readiness-reportable equipment, we are able to appropriately allocate funds to those assets most directly affecting warfighting capability. This system gives visibility not only to a unit's training allowance (which impacts on other readiness areas) but also to those assets held (or missing) in stores assets at our logistics bases, Albany and Barstow. Providing Tables of Equipment (T/E) to high-priority/spearhead units, ensures the optimum state of training/mobilization readiness.

UNIT TRAINING

Exercise participation affords reservists the same opportunities as active duty Marines to develop and maintain skills in command and control, fire support coordination, amphibious operations, and fire and maneuver. An active cycle of training is maintained including combined arms exercises, cold weather and mountain warfare training, and amphibious assaults. Unit participation in major exercises abroad, and within the continental United States provided training to approximately 23,000 reservists during Fiscal Year 1988. Exercise Teamwork 88 was a highlight for Selected Marine Corps Reserve training.

Conducted in Norway this exercise saw a Selected Marine Corps Reserve infantry battalion with attached Combat Service Support elements, participate in an amphibious assault with Active Marine Corps forces to practice our Northern NATO contingency. Continued Combined Arms Exercises at the Marine Corps Air Ground Combat Center, Twentynine Palms, CA, will be enhanced by establishing force-on-force, free-play scenarios where units will learn to respond to rapidly changing combat situations. The Reserves' ability to fight with combined forces is enhanced through combined exercises and the Reserve foreign exchange programs. During the Royal Marine Reserve/USMCR exchange in 1988, ten U.S. Marines participated in Exercise Cockburns Reserve in Holland and six Royal Marine Reserves participated in Exercise Kernel Blitz-88 off the coast of California. The most significant exercises planned for Fiscal Year 1989 are depicted on the following chart.

PRINCIPAL FY 89 EXERCISES

EXERCISE	DATES	LOCATION	MAJOR UNIT	NUMBER PERSONNEL
Joint/Combined				
Balikitan-89	Classified	WestPac	3d CAG	5
Bright Star	Classified	Med	3d CAG	13
Dragon Hammer	Classified	Med	4th ANGLICO	17
Team Spirit	Classified	WestPac	3d ANGLICO	151
Valiant Blitz-89	Classified	WestPac	3d CAG	8
Joint				
Kernel Blitz	Classified	CA	4th ReconBn	31
Logex	890611-890623	VA	4th FSSG	100
Marine Corps/SMCR				
Alpine Warrior	890219-890305	WI	3/25	1,150
CAX 7-89	890617-890701	CA	2/24	2,300
CAX 8-89	890708-890722	CA	3/24	2,500
Cold Winter	Classified	OCONUS	1/24	645
FIREX	890708-890722	FL	5/14	970
1stMEB Deployment	890618-890702	HI	1/23	1,000

Civil Affairs Group (CAG)
Air Naval Gunfire Liaison Company (ANGLICO)
Reconnaissance Battalion (ReconBn)
Force Service Support Group (FSSG)

TRAINING AND INNOVATION

The Marine Corps Reserve continually seeks to apply emerging technologies in simulators and computer-aided instructional systems to improve our training and combat readiness. The demands placed on Reserve units to maintain military skills despite limited training time and lack of access to live-firing ranges, have led to the development and use of state-of-the-art ranges, have led to the development and use of state-of-the-art devices and ranges.

The use of devices and simulators for reserve training falls into five general categories: marksmanship/gunnery, combat environment, command and control, maintenance training, and aviator training. The systems are used by individuals and units during drills or annual training duty.

Ranges and range devices under development and in use include the Multipurpose Range Complex, Small Arms Remote Targets, and Remote Engagement Target Systems. Marksmanship/gunnery devices and simulators include moving target simulators, the Precision Gunnery Training System, the light armored vehicle gunnery trainer, and a full-crew tank trainer for the M60A1 Main Battle Tank. The full-crew tank trainer will be fielded in FY 89. When the Reserve fields the M1A1 tank and funding becomes available, the M60A1 system can be upgraded to meet the new training requirement. The Marine Corps continues to exploit innovative training opportunities to provide quality training and skill qualification programs tailored to the Reserve's needs. We are pursuing portable systems and military occupational skill instructional vehicles to enhance on-site skill qualification training for reservists during weekend drills. Your continued support is necessary to make effective and timely use of evolving training technologies.

INDIVIDUAL TRAINING

Training in the Individual Ready Reserve (IRR) is accomplished through two programs. First, the Exercise Support Program provides individuals the opportunity to participate in major active component exercises under the cognizance of Fleet Marine Force commanders. For instance, during 1988, 125 individual reservists participated in Exercise Team Spirit by deploying to Korea as part of III Marine Expeditionary Force.

The second means of training the IRR is through the Reserve Counterpart Training Program, which is designed to provide Reserve Marines the opportunity to train with active duty counterparts. Technical skill enhancement and proficiency in occupational skills, external to an exercise support environment, are the benefits of this program. In Fiscal Year 1987, 944 participated compared to 1253 in Fiscal Year 1988. This program focuses on providing individual and group training with Active component combat arms units. Additionally, IRRs are taking advantage of formal Active component combat leadership schools.

Ensuring MOS proficiency presents a significant challenge when considering the anticipated growth of the IRR to 80,000 by the end of Fiscal Year 1992. The Reserve Counterpart Training Program is being used increasingly as a training vehicle to meet greater refresher training requirements.

Another facet in our training program for Reserve officers is attendance at professional schools. These schools are similar to those offered to the Active component, but tailored to the time available to reservists. Reserve courses are offered at the Marine Corps Amphibious Warfare School, Marine Corps Command and Staff College, Landing Force Training Commands (Atlantic and Pacific), Naval War College, NATO Defense College, and the U.S. Army and Air Force War Colleges. Candidates from the grades of warrant officer to colonel are competitively selected to ensure the most qualified individuals attend. Eight hundred eighty-nine officers were selected in Fiscal Year 1988 and attended a formal school. Eight hundred fifty-one officers have been selected for Fiscal Year 1989.

BUDGET

The Fiscal Year 1990 Marine Corps Reserve budget request of 396.6 million will support enhancement initiatives discussed earlier and a Selected Marine Corps Reserve end strength of 44,000 (42,849 average strength). This funding represents 4.3 percent of the total Marine Corps budget. Listed below is a comparison of Fiscal Year 1988 actuals, Fiscal Year 1989 appropriated levels, and Fiscal Year 1990 requested amounts.

FUNDING COMPARISON - Fiscal Years 88/89/90

APPROPRIATION	FY88	FY89	FY90
Reserve Personnel Marine Corps	294.2M	315.1M	319.2M
Operation & Maintenance, Marine Corps Reserve	68.8M	77.6M	77.4M
TOTAL	363.0M	392.7M	396.6M

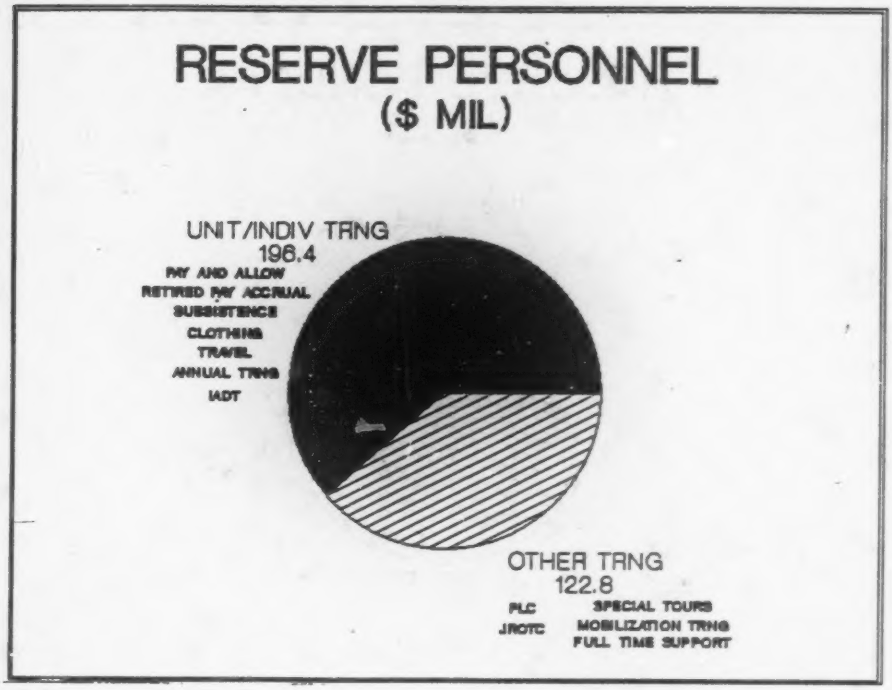
The Fiscal Year 1990 Marine Corps Reserve Personnel budget is depicted in chart #1, (Page 25). It provides $196.4 million for pay and allowances, retired pay accrual, subsistence, clothing, and operational travel for units and individuals during drills, annual training, and initial active duty for training. The other $122.8 million is for special tour requirements, mobilization training, the Full-Time Support program, incentives program, Platoon Leaders Course, and the Junior Reserve Officers Training Corps. The Reserve Personnel, Marine Corps increase of $4.1 million in Fiscal Year 1990 is necessitated primarily by a pay raise and an average strength increase of 443 in Selected Marine Corps Reserve and Full-Time Support programs after a reduction in retired pay accrual.

The Fiscal Year 1990 Marine Corps Reserve Operation and Maintenance request of 77.4 million provides funds for the day to day costs of supporting our units. Training of Selected Marine Corps Reserve units is directly supported by 36.8 million.

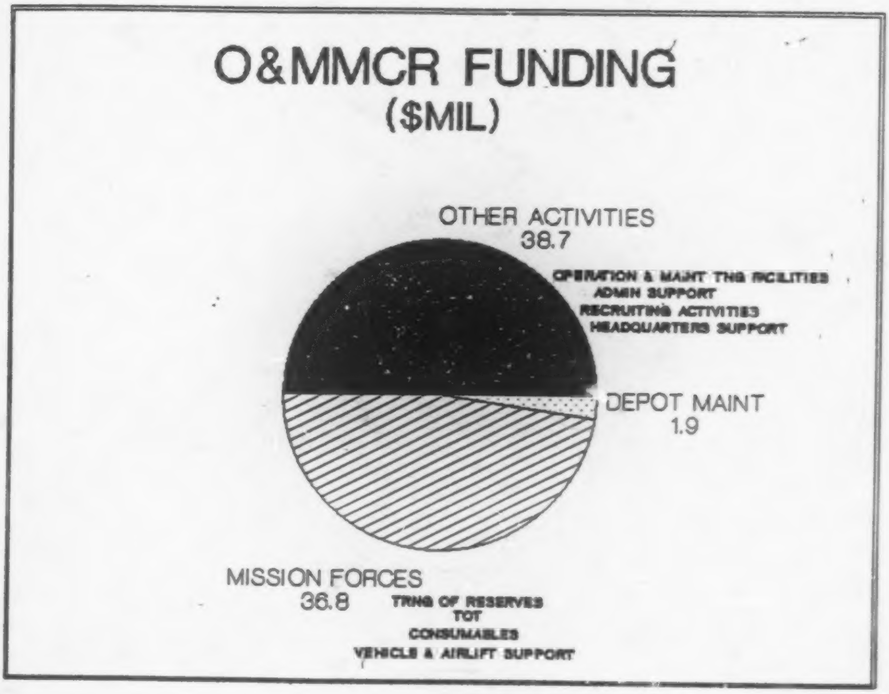
Included are the cost of "expense items" of equipment, consumables, vehicle and airlift support, transportation of Marines and materiel. Unit maintenance of equipment is supported with 1.9 million. The Fiscal Year 1990 request also provides 38.7 million for the operation and maintenance of training facilities, and administrative support of individual reservists, recruiting activities, and headquarters support.

Funding levels described for Fiscal Year 1990 are essential to ensure our continued growth and increased capability to fully contribute to the Total Force. The modest increase in funds for manpower training, equipment, and facilities will maintain our war fighting capabilities and is considered cost-effective under our current fiscal constraints. The next few pages graphically illustrate the Marine Corps Reserve budget.

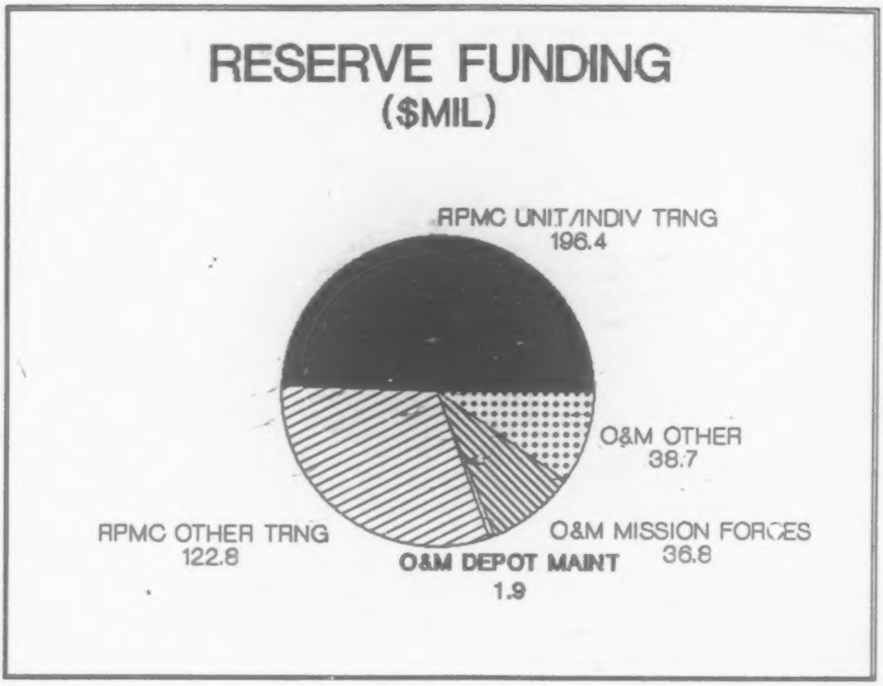
1


RESERVE PERSONNEL
($ MIL)
UNIT/INDIV TRNG
196.4
PAY AND ALLOW
RETIRED PAY ACCRUAL
SUBSISTENCE
CLOTHING
TRAVEL
ANNUAL TRNG
IADT
OTHER TRNG
122.8
PLC
SPECIAL TOURS
JROTC
MOBILIZATION TRNG
FULL TIME SUPPORT

2


O&MMCR FUNDING
($MIL)
OTHER ACTIVITIES
38.7
OPERATION & MAINT TNG FACILITIES
ADMIN SUPPORT
RECRUITING ACTIVITIES
HEADQUARTERS SUPPORT
DEPOT MAINT
1.9
MISSION FORCES
36.8
TRNG OF RESERVES
TOT
CONSUMABLES
VEHICLE & AIRLIFT SUPPORT

#3


RESERVE FUNDING
($MIL)
RPMC UNIT/INDIV TRNG
196.4
O&M OTHER
38.7
O&M MISSION FORCES
36.8
O&M DEPOT MAINT
1.9
RPMC OTHER TRNG
122.8

CONCLUSION

The Marine Corps Reserve has continued to improve its combat readiness. The training and quality of our personnel and equipment is at an all time high as a result of your support. It is anticipated that the role of the Reserve in our Total Force will expand over the next 10 years as Congress and the Department of Defense tackle the tough decisions associated with budgetary austerity and manpower losses. Modernization efforts, force structure changes, and modest manpower growth require continued support in the form of equipment, training, and facilities to upgrade our warfighting capability.

Madam Chairwoman, I appreciate this opportunity to address your committee. The Congress has been quite supportive of our needs in the past, and we are thankful. The readiness of your Marine Corps Reserve will be further enhanced with your continued support.

Mr. HUTTO. All right, we thank both of you. In recent months the General Accounting Office, and others, have raised questions about the state of Guard and Reserve readiness. At the same time, most of the testimony that we are receiving for the last few weeks from the Reserve components indicates that unit and individual readiness had never been higher. In trying to reconcile these different assessments it would be useful to know who is performing the readiness evaluations and what kind of quality assurance mechanisms are in place?

For example, GAO found that Air Force units have a high state of readiness and one of the reasons for this is the fact that the Air Force uses active duty inspector general personnel to rate the Reserves. Conversely, I understand that the Naval Reserve used primarily Reserve personnel to evaluate Reserve readiness.

Why doesn't the Navy use active duty personnel to evaluate Naval Reserve unit readiness and how can we have confidence in efforts of Naval Reserve readiness when you seem to be grading yourselves? Admiral?

Admiral SMITH. Well, we take a look at our Air Reserve. We have operational control of the 52 squadrons that we have in our Air Reserve. The readiness of those squadrons is comparable to or better than anything on active duty. The readiness reporting is the same system that is used on active duty. I think the fact that our Naval Air Reserve last year went 16 months without a Class Alpha Accident—no other group in the Navy has ever done that before—is an indication of the quality that we have in the Naval Air Reserve and I don't think Navy IG is going to find anything better.

Another thing, the Navy IG does not do inspections of ships and aircraft. They are the responsibility of the next senior person in command. You do not find a Navy IG in the active fleet going aboard a ship and inspecting that ship. The squadron commander has that responsibility. The commander has the responsibility to see that it is carried out.

We follow that same procedure.

Mr. HUTTO. General Looney, who evaluates Marine Corps Reserve unit readiness and why are you confident that such assessments are valid indicators of Reserve unit readiness?

General LOONEY. Sir, we have three methods of measuring readiness, sir. Our Marine Corps Combat Readiness Evaluation System is the same system that our active forces uses. It is conducted by our 4th Division and Wing staffs and sometimes assisted by other active duty personnel, in particular areas where certain expertise is needed.

We used the Mobilization Operational Readiness Development Test, which is a mobilization-type readiness exercise to see if the unit is ready for mobilizing, moving to station of initial assignment, that is done again, by the 4th Division staff or the 4th Marine Aircraft Wing in New Orleans, assisted by regulars for certain expertise. The SORTS, as the Admiral mentioned, is the normal readiness reporting system.

Mr. HUTTO. Senator Symms' article on the better integration of reserve and active forces, he wrote the article in Defense News about how we should better integrate the Reserve forces with the active forces in ways that may better provide national defense without reducing the readiness of those units.

Do you agree with Senator Symms' approach, and what is the Naval Reserve and Marine Corps Reserve doing to improve the integration of active and reserve forces without impairing mission capability and readiness?

Admiral SMITH. I believe that Senator Simms was addressing more the use of Reserve forces in situations short of the total mobilization scenario rather than the integration of the forces. Navy has stated its position in its report, on the Total Force, that I believe has gone to this committee.

Let me state this, that the limited accessibility of selected Reserve personnel is the biggest obstacle that must be overcome in using Naval Reserve assets to support contingencies short of mobilization. The equipment is there, it is combat ready. The problem is being able to call up the Reservists to man it.

While there is a broad range of statutory options available to involuntarily recall Selected Reservists, both the domestic and the international implications tied to these actions have severely restricted their use. This reluctance to initiate a Reserve call up places the Navy in a dilemma. Congressional direction and fiscal constraints require that we place equipment and personnel assets in the Reserve component.

However, in crisis situations ready access to these assets is delayed. Navy supports the use of existing recall authority, Navy thinks it has to be done.

Mr. HUTTO. Do you have any comment, General Looney?

General LOONEY. Yes sir, I would just like to say I fully support the Senator's ideas and philosophies and I think with our integrated exercise program which we use in the Marine Corps today, we are demonstrating that philosophy. In fact there are Reserve units today over in Norway conducting an exercise under the supervision of 4th Marine expeditionary brigades. So the integration of the Reserves in actual exercises is reality—we are big proponents of it.

Mr. HUTTO. In view of the CNA study of Navy organic airlift, have you considered replacement of the C-130H's based at the Naval air facility at Andrews?

Admiral SMITH. The 131's sir?

Mr. HUTTO. Yes sir.

Admiral SMITH. Yes, we would like to replace those. In the process of all priorities, that one fell out of the POM.

Mr. HUTTO. I believe it's VR48 out there. What is the authorized strength of that unit?

Admiral SMITH. There are two aircraft there.

Mr. HUTTO. Does that C-130H fall in the CNA study category of medium airlift, or would it be termed heavy airlift? Could medium airlift modernization program be accomplished at VR48 without affecting its current manning levels?

Admiral SMITH. I'm sorry, I didn't get the last part of that.

Mr. HUTTO. Well, let me ask the first part of it. Does that C-130H fall in the CNA study category of medium or would it be termed heavy airlift?

Admiral SMITH. The 131 would be considered medium.

Mr. HUTTO. Medium.

Admiral SMITH. Yes sir.

Mr. HUTTO. Could a medium airlift modernization program be accomplished at VR48 without affecting its current manning levels?

Admiral SMITH. I would think so. I can't imagine what other requirements would be placed on it in addition to modernization.

Mr. HUTTO. Inasmuch as the CNA study concluded that a C-20 type aircraft could satisfy your medium airlift shortfall and a C-20 logistic support base was well established at Andrews, would there be any merit in considering the C-20 as a candidate to replace the C-131H's?

Admiral SMITH. Certainly they are both medium airlift aircraft and I would have to respond yes to that, I would add, however, that if we were going to do that I would want to see aircraft that have a cargo capability in addition to the passenger capability. That would broaden the flexibility and use of those aircraft and make them much more valuable to us in wartime.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. Thank you for your statements, gentlemen. This is a question that I asked a previous panel and also in a previous hearing, but as I indicated to them I would like it in this record as well.

As we modernize and put additional training requirements on our men and women to use the new equipment as we have greater commitments to be filled by Reservists, we are increasingly expecting of our Reservists more than just a weekend and 2 weeks in the summer. What are we doing to guarantee the continued support of employers as those greater demands are made? Should we be looking at some sort of incentive for employers when they allow employees over and above their regular Reserve commitment to fulfill what is now expected of them, such as a tax credit or a tax deduction for man hours lost due to Reserve over and above the minimum?

Admiral SMITH. I think all of the services depend heavily upon the DOD sponsored organization Employer Support for Guard and Reserve as the primary means of providing that kind of support. Yes, Mr. Lancaster, that is something we should be concerned about. I was recalled to active duty 4½ years ago from the civilian world. So I understand what is it like out there to be responsible for meeting contractual obligations or a production line, and when someone comes up and says "I'm sorry boss, I've got to do something with the Reserve," and you are facing those kinds of deadlines, that makes for some hard decisions by first line supervisors.

Anything that could be done to make it more attractive to an employer to have the employees in the Reserve would certainly be beneficial to us.

Mr. HUTTO. General Looney.

General LOONEY. Yes, Mr. Lancaster. We do, of course, utilize the National Committee for employer support of the Guard and Reserve. It is an education process as you well know with our employers and our I&I staffs, and the community in the vicinity of the Reserve unit, education, good will visits, et cetera. I would really support any benefit that could be given to an employer. It would make it easier for the employers who have to do it, yes sir.

Mr. LANCASTER. The GAO report which says that about 50 percent of reservists training time is spent on paperwork rather than in operational training—does that reflect the situation in the Marine Reserve or is that an overstatement? If that is an overstatement, what would you say the mix is? Do you feel it is appropriate in your particular reserve component?

Admiral SMITH. I have not seen that statement so I do not know how they reached that conclusion.

First of all, I think we have to define what is paperwork. It is the tendency for people to assign to that term all administrative requirements. We have requirements on our people ranging from the necessity for them to fill out dependency forms as changes occur, to urinalysis tests. Whether we put all of those various things in the category of paperwork or as a general category, should be defined.

As far as I am concerned and I was just talking to about 45 sailors in New Orleans yesterday and they were from all over the country, I hate paperwork so I always ask them this question. Are you wasting good training time on paperwork and they tell me no. I just had one of our flag officers do a study, it took a year and a half, on paperwork in the Naval Reserve. What we find is we are doing pretty well in it.

I would say the average sailor on pure paperwork spends less than 10 percent of their time on pure paperwork.

Mr. HUTTO. General Looney.

General LOONEY. I would have to second what the Admiral says, sir. We are trying to get the troops out in the field. We feel our realistic training is associated with our reduction in attrition. You do not keep a young marine's interest by constantly doing paperwork. But there are certain requirements that have to be done.

Mr. HUTTO. If the gentlemen will yield. Has the computer had anything to do with the cutting down on paperwork?

Admiral SMITH. No question about it. We are kind of proud of the new ADP system we have in our Reserve. I would like an hour or so to tell you about it sometime. No question that it cuts down on paperwork.

The other thing we have to watch for, though, is that Reservists themselves can fall into the trap of doing paperwork because the alternative is doing hard training. So we have to make sure that the leadership is there to make sure they understand what their job is and it is not doing paperwork in the Reserve centers, it is providing training to our people.

General LOONEY. That is what I said earlier, the leadership involvement in the quality of training.

Mr. LANCASTER. Do you have an estimate, General Looney, of the time spent by your average Reservist in non-operational training?

General LOONEY. Mr. Lancaster, I don't. But I would think after listening to the Air Force testimony and the Admiral's I would say it is 10 percent. But I would like to get back to you.

[The following information was received for the record:]

The Select Marine Corps Reserve develops challenging and innovative training in order to be combat ready. Administrative downtime, although unavoidable, is kept at a minimum. An estimate of non-operational time in hard figures is not readily available.

Mr. **Lancaster**. In your prepared statement you did not mention this in your brief oral statement. You spend a good bit of time talking about the use of simulators in training.

General **Looney**. Yes sir.

Mr. **Lancaster**. What percentage of training is currently accomplished through the use of simulators and what is the forecast of its continued use, and lastly, have you quantified the effectiveness of simulator training in terms of marksmanship and other skills developed?

General **Looney**. We have not, sir. We are just waiting for the delivery of our simulators and have been provided the funds to purchase them. In fact, two tank simulator trainers, are going to be delivered, within the next 2 months to both of our Reserve tank battalions. We feel there is going to be a cost saving as it pertains to ordnance, POL, transportation cost, moving the tank out to a firing range—but I do not have a handle on, as of yet, the total saving.

Mr. **Lancaster**. Well, I am not as concerned about savings—of course that is important. I am sure that simulator training is, in fact, effective in training the Marines to use the equipment in actual battle.

General **Looney**. I think as you recall sir, in prior years you knew I was out at Barstow. I went and tried the tank trainer and I thought I was running over the desert at Twenty-Nine Palms. It is the most realistic trainer, complete with the software that we have been able to get, you think you are at either Twenty-Nine Palms or out in the desert.

Mr. **Lancaster**. Is this the same simulator the Army uses?

General **Looney**. I'm not sure, sir. I believe it is.

Mr. **Lancaster**. I have played with that one too.

General **Looney**. It even has the whiz bang effects and the noise.

Mr. **Lancaster**. Right. Admiral Smith, you mentioned in your prepared statement the establishment of a new Reserve recruiting command. What is the structure of this command and how do you believe that this is going to be better than current recruiting efforts?

Admiral **Smith**. It is an echelon 3 command that reports directly to me. So for the first time in the Naval Reserve, when I want to find out what is going on in recruiting I go to one person. In the past we had the Naval Air Reserve and the Naval Surface Reserve both doing their recruiting. Then we had a third organization doing non-prior service recruiting. None of the three talked to each other.

We also had the problem of the Air Reserve looking for their interest recruiting in an area in competition with our own Surface Reserve. That is not going to happen anymore. We also had the situation where, for a number of years our requirements exceeded our funded level for personnel. So it was rather easy to go out and recruit a sailor, and we could find a place for him. They have met each other now. So the only way we can recruit somebody, is to find the right sailor, with the right skill area and put him in the right billet. That is hard. We need this recruiting organization to do that.

Mr. **Lancaster**. You also described the high tenure program which, as I understand it, will be up or out, earn the promotions within a reasonable period of time, or drop out. Would you elaborate a little more on that, how that works and how quickly you will be able to get results from that?

Admiral SMITH. It is really nothing new. As a matter of fact the Enlisted Selective Reserve was the only community in the Navy that was not subject to a high year tenure program. Going around and talking to the sailors out on the drill decks and at the air stations they are complaining about lack of advancement opportunity, and stagnation. Then when we come back and find that over 55 percent of our rating groups were over-manned, it was obvious that we had a problem in our pyramid. It was too heavy at the top.

So we implemented the High Year Tenure program. Initially it was a 3 year program, but what I found was that the people who had been the victims of this in the middle group there needed some opportunity to get that advancement, otherwise they were going to be subjected to the same High Year Tenure. So we extended it over 5 years.

We just had our first High Year Tenure board that met several months ago. It was very effective. I think it is well received throughout the Reserve and I expect this year to open up about 3,000 billets as a result of this.

Mr. HUTTO. Thank you, Mr. Lancaster. Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman. Admiral, General, it is good to have you here today.

Admiral Smith, on page 9 of your prepared statement you indicate that the end strength of the Naval Reserve has grown by more than 50 percent in the past 7 years. You also said that this growth has not been without some problem in allowing the advancement stagnation to creep in. Are you able to deal with that problem or can you give us an update on what——

Admiral SMITH. Yes sir, that is essentially what I was discussing with the High Year Tenure. That is the biggest thing we have going on that. But there are other things we can do. We can watch the way we recruit. For instance we have a program called our advance pay program. Those of us who recall the John Wayne movie, the "Fighting Seabees" realize that most of those Seabees in World War II were really advanced pay grade. Their civilian skills were recognized and they were given ratings based on that.

We still do that to a limited extent. But if we bring in a person that is a second class petty officer within a rating, when we have people below them trying to advance, we have just taken an opportunity for those sailors who have passed the exam but not advanced. So we are stopping that type of thing.

We are also looking at each of our skill areas, using our RAMOS categories, while looking at the manning to determine how much more recruiting we must do in those areas. So we have a number of programs going—aimed at that same objective.

Mr. RAY. It is my understanding that the Naval Reserve has been fairly active in Navy drug interdiction efforts in the last few years. Any good stories to tell in that respect? Is the fiscal year 1990 and 1991 budget recognizing the fact that you need funds to carry on this work?

Admiral SMITH. Well, we have been carrying out drug interdiction slightly above the percentage of force structure that we have in Navy's total force, whether it be air or surface. I don't have any stories for you, but maybe next time we will. I am going out to Roosevelt Roads week after next with out Maritime Air Patrol to see how that thing does work.

I expect that there will be increased activity in that and the Naval Reserve stands ready to contribute at even a higher level of participation.

Mr. HUTTO. Mr. Ray, if you will yield.

Admiral, you are still limited by the Posse Comitatus Act.

Admiral SMITH. Yes sir.

Mr. HUTTO. What can you do, I mean do you have the——

Admiral SMITH. Coast Guard Battalion.

Mr. HUTTO. Coast Guard?

Admiral SMITH. Yes sir.

Mr. HUTTO. The leadettes?

Admiral SMITH. Yes.

Mr. HUTTO. Thank you.

Mr. RAY. During the Mideast Persian Gulf problems we had out there, Reserve crews, we understand, were replaced with composite crews made up of active duty personnel and Reserve volunteers on the minesweepers.

Admiral SMITH. Yes sir. Also two frigates, Reserve frigates.

Mr. RAY. Does this mean that the Navy has changed its earlier policy of giving the Naval Reserve exclusive responsibility for mine countermeasure ship operation?

Admiral SMITH. I think the Navy is certainly considering that. It relates to my statement earlier that the Navy is concerned about putting any missions into to the Reserve that they cannot get to when they need it.

Mr. RAY. I see.

Admiral SMITH. I think it is interesting to refer back to the letter that accompanied the legislation, that was provided back in December of 1974, to the Speaker of the House. The statement is made in this letter that says there needs to be a firm reassurance of Reserve availability for employment in crisis situations, short of national emergency, in order that active force commanders may place a high degree of reliance on the Guard and Reserve.

I think that would be a good question to ask the active force commanders. What high degree of reliance do they have, that if they come up against some operational requirement or emergent requirement or crisis, can they count on getting the Reserve forces, that we have ready, to handle those situations?

Mr. RAY. Good question.

Admiral SMITH. Yes sir.

Mr. RAY. The subcommittee has been somewhat concerned about not only the steady growth in Navy and Marine Corps backlogs, but backlogs in all of the services. Has the growth in these backlogs created any significant problems for the Naval Reserve and the Marine Corps readiness or in their ability to fulfill their missions to either one or both of you?

Admiral SMITH. No sir, we have been able to fulfill our missions. Sure, it would be nice if we had a lot of the things we would like to have. But if we look at facilities first, we are getting a higher proportion in the Reserve than active Navy is giving to themselves, so I cannot complain.

Mr. HUTTO. So how about you, General?

General LOONEY. I have no complaints at this time, sir. We are adequately funded. Backlogged maintenance as we use more of the equipment does grow, but we do have the funds in the budget to cover that.

Mr. RAY. We do not have any warehouses full that we cannot get to, then? We are not cannibalizing, in your opinion, because we have a shortage of parts?

General LOONEY. No sir, not in support of the Reserves.

Mr. RAY. OK. General Looney, in your prepared statement on page 2 you indicate that the Marine Corps Reserve has achieved a nearly 10 percent reduction in selective Marine Corps Reserve personnel turnover. That seems pretty impressive but I see the turnover rate is still 27 percent a year which seems high. Can you talk about that?

General LOONEY. Yes sir, I spent most of the morning with my experts trying to get smart on that one. Dividing the 30 percent that we had previously and dividing that by three, if we come up with a percentage it becomes 9 percent. But what I would like to do is submit the statement to you, sir.

[The following information was received for the record:]

The accessions for the Selected Marine Corps Reserve remained constant at 13,000 during fiscal year 1987 and fiscal year 1988. Turnover was reduced from 12,646 in fiscal year 1987 to 11,494 in fiscal year 1988, a 9 percent reduction.

Mr. RAY. That would be fine.

General LOONEY. Thank you.

Mr. HUTTO. Mr. Ray, you have got another red light. I found out that it works and Mr. Lancaster was fortunate that he escaped that.

Mr. RAY. I demand equal time as all my other colleagues.

[Laughter.]

General LOONEY. I will submit that to you, sir.

Mr. RAY. I just have one other question here to you gentlemen. Last year Congress provided $45 million to procure two KC-130 tankers for the Marine Corps Reserve. What is the total Marine Corps Reserve requirement for K-1C tankers, and how many have been funded to date? Does this year's budget request include funds for KC-130 tankers?

General LOONEY. No sir, the budget request does not include funds for the KC-130T tankers. We would like to have, sir, two squadrons, one at Stewart International Airport, and one in Glenview, IL. We have 14 on board, we have four more funded and would like to grow to 26.

Mr. RAY. I see. What is the total now in service?

General LOONEY. Currently in service, 14, sir.

Mr. RAY. Fourteen. How many in line?

General LOONEY. Four funded, and so we would need the funds for the additional eight.

Mr. RAY. Thank you. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you. The gentleman from Rhode Island was recognized for 5 minutes and a question following that if he feels compelled.

Mr. MACHTLEY. Thank you, Mr. Chairman. The clock is running. I would like to tell the Admiral it is a pleasure to be here and to address my boss. I am a man in the Reserves.

Mr. HUTTO. He used to be the boss.

Mr. MACHTLEY. Yes, I was wondering which side of the table controls here. But I still think of Admirals as the boss. I had the pleasure 2 weekends ago to attend the change of command on one of the destroyers where my roommate took over as the CO. I had a chance to talk to many of the troops, sailors and officers. I think we are in good shape, at least on that ship. I noticed in the home port there were four other classmates who were commanding ships so I am very optimistic that that program is working.

I did, however, remember several years ago that there was the need to draft reservists to fill the crews, that was the primary mission. How are we doing in that area? I have lost track.

Admiral SMITH. We are doing very well. We are manning our ships and I do not think this is classified. The SEL-RES manning is about 85 percent. We are talking about ones and twos that we are not putting aboard these ships. We are also going to see a difference in the way we recruit them under this new recruiting command. But generally that is working very well.

Mr. MACHTLEY. Good, the other problem which I think most officers had in the Naval Reserve was the non-paid billet problem. You reach commander and you are out of luck and go with non-pay for 4 years. Why can't we do the same as the Army has done—the billet and you get paid?

Admiral SMITH. I guess the Army has got more money than we have. Having spent all except 6 months as a commander in non-pay status I relate to what you are saying. But the fact of the matter is driven by the requirements and those requirements fall into whatever the structure is for that rank. Therefore we are going to continue to have situations, particularly with officers, where they are going to get promoted out of pay billets, or they may just run the string out on the amount of time they can spend in pay billets.

So they are going to go into the VTU and look around for another billet they qualify for and compete for that.

Mr. MACHTLEY. Well, I think that all of the Reserves are doing well, and I do not want to slight the Marines. I have a great deal of respect for what they are doing.

General LOONEY. Thank you, sir.

Mr. MACHTLEY. Having served in the Navy I have at least some first hand knowledge. In the Marine Reserve do you have your own equipment? If you were to be called up, do you take your own equipment, or would you be augmenting an active duty force and using their equipment? I am trying to find out where we are on this list capability question.

General LOONEY. Sir, on vertical procurement, the equipment for the Reserves is procured at the same time with Marine Corps procurement dollars as is the active side of the house. We get a fair share based on our requirements and we horizontally field it, so that we have the same equipment in the Reserves as the regulars are getting.

Mr. MACHTLEY. You would take your equipment with you?

General LOONEY. We would take what we call a training allowance. It's at each of our training sites and goes with us to our station of initial assignments, and the additional equipment which we would call T/E would flush that unit out to make it just like an active unit, with the same type of equipment.

Mr. MACHTLEY. Is there any problem with the weight of your equipment? I understand that active duty, with the new equipment may have problems with lifting weight?

General LOONEY. Our equipment is the same as the active component, sir.

Mr. MACHTLEY. Then you must have the same problem.

General LOONEY. Yes sir.

Mr. MACHTLEY. Are you aware of a problem with the heavier equipment, now?

General LOONEY. Well it is like replacing the M-60 tank with the M1A tank, it is larger, it takes more square feet and it weighs more. We will just have to make arrangements in the planning for embarkation or movement for those types of equipment, whether its transported over road or rail on to the designated station of initial assignment.

Mr. MACHTLEY. Thank you. No further questions.

Mr. HUTTO. You did well, Mr. Machtley.

Mr. MACHTLEY. I was racing.

Mr. HUTTO. Thank you. Mr. Tanner.

Mr. TANNER. Thank you, Mr. Chairman, I will try to do as well. Admiral, I hear from time to time concerns about the medical care. My question goes much farther than that, though. How are we doing on implementing Reservist timekeeping medical field into active duty installations and how can the Reservists, particularly in the medical field, help in that regard?

Admiral SMITH. I think the best example of that effort is something that is rather recent, right here, in Bethesda. I am sure you have heard about the effort that Navy is making at Bethesda. But a large part of that, particularly with nurses, is going to be Reserve. What we say is we ought to use more of our VR method.

Let me tell you about our VR squadrons. Compared to all the air logistics of all the Navy and every logistic aircraft in the Navy, we fly in the Naval Reserve, 49 percent of the flight hours, we carry 53 percent of the cargo and 81 percent of the passengers. That is the Naval Reserve.

Now we do that by having a small group of full time support personnel fleshed out by SEL-RES who schedule in advance, which days of the week they can make themselves available and it works. We are doing the same thing with medical. Our medical personnel lay out ahead of time what days they are going to be available and they show up. Now, that is the way the civilian hospitals have been doing it for a number of years. So Navy is moving into that.

Mr. TANNER. I would sure like to see the Navy lead the way in the area because they——

Admiral SMITH. We are a very strong supporter in that effort in the Memphis area with our Rear Admiral Summit, one of our Selective Reserve medical officers who is the Dean of the School of Medicine at the University of Tennessee.

Mr. TANNER. Right.

Admiral SMITH. So we have got a little interest locally.

Mr. TANNER. I would sure like to see that, and I commend you for it. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you. Mr. Dyson.

Mr. DYSON. Mr. Chairman, I really do not have any questions, I just read here in the Admiral's biography that you are a native of Baltimore, MD?

Admiral SMITH. Yes sir, I used to pronounce that as "Balmore, Merland".

Mr. DYSON. Balmore. Nice to have you here today, I really do not have any questions. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you.

Mr. DYSON. Nice to see a Marylander doing so well.

Mr. HUTTO. I did not know they said that in Baltimore.

Mr. DYSON. Mr. Chairman, one day when I get you to come up to Aberdeen, we will go through Baltimore.

Mr. HUTTO. I have one or two other questions here. Admiral Smith, I understand your concern about the ability of the Navy to call up Naval Reservists in other than mobilization situations. But, it is also my understanding that there is a broad range of statutory options to involuntarily call up Reservists. Why haven't these authorities been used more often?

Admiral SMITH. I can't speak first hand, Mr. Chairman, having not been privy to the discussions when those issues were topical. But I think it is fair to say that certainly one of the things that stands in the way of any recall of Reservist is the War Powers Act. That was, in my opinion, certainly a factor and the reason why when we called Reserve mine-sweepers and Reserve frigates to fill necessary missions in the Persian Gulf we did not recall the Selected Reserve crews that we have been training for years, that we have been paying for years to do that very job.

Mr. HUTTO. What additional statutory authority do you think is required to fully address the issue of involuntary call of Reservists for contingencies below the threshold of national mobilization?

Admiral SMITH. Again, I speak from personal opinion in this, and that is I don't know if we need additional statutes. All we have to do is use what we have and take the obstacles out of the way of using it.

Mr. HUTTO. All right, I understand that the Navy has given a hard look at the potential for regularly deploying Naval Reserve Force ships to augment active operations. Why did the Navy conclude that regular deployment of NRF ships was not a suitable new mission for the Naval Reserve to take on?

Admiral SMITH. Primarily for the cost, and also the inability to get the trained crews over there regularly to do it. What you are looking at was the extreme case of, let's say, having a Reserve ship operating in the Mediterranean and over a 6 month deployment rotate different crews every 2 weeks. It is impractical and it is very expensive. What we have been able to do is take short term deployments, such as 6 week deployments, and rotate three crews for 2 week active duty periods and that has worked well. We have done that in the South Atlantic, we have done that in NATO exercises.

Mr. HUTTO. All right sir, we have a lot more questions for you. We are going to present them to you and ask that you respond as soon as possible for the record.

Admiral SMITH. Yes sir, we will do that.

Mr. HUTTO. You have presented some very interesting testimony, it has been very informative and we very much appreciate both of you being here.

General LOONEY. Thank you, sir.

Mr. HUTTO. We look forward to working with you.

General KILLEY. Thank you.

Admiral SMITH. Thank you. I will be in Pensacola next week?

Mr. HUTTO. Pensacola next week?

Admiral SMITH. Yes sir.

Mr. HUTTO. Well I will too. We'll see you there. With that the subcommittee stands adjourned.

[Whereupon, at 3:30 p.m., the hearing was adjourned.]

[The following questions were submitted to be answered for the record:]

QUESTIONS AND ANSWERS FOR THE RECORD

submitted by:

MAJOR GENERAL ROGER P. SCHEER
CHIEF, AIR FORCE RESERVE

NUMBER ONE PROBLEM IN AF RESERVE

Question: What are the number one problems in the Air Force Reserve and Air Guard?

General Scheer: For the short term, equipment modernization is the primary concern. First, the continued operation of the HH/CH-3 helicopter fleet constitutes a heavy drain on Air Force Reserve resources. The aircraft are approaching obsolescence and unsupportability, have marginal performance, navigation, and communications capability, and are ill-equipped to survive in a wartime environment. Replacement of AFRES helicopter assets with newly procured MH-60G/L helicopters would greatly enhance mission capability. In FY 1989, Congress provided the authorization and appropriation of funds to procure nine MH-60Gs. Sixteen more aircraft would complete the helicopter modernization.

Secondly, we would hope to complete the C-130H procurement for our unit at Youngstown, Ohio. We need two more C-130Hs to complete this unit's conversion from the C-130B. Without these two aircraft, this unit will be operating very inefficiently with two models of aircraft. Also, when the Youngstown conversion has been completed, the Air Force Reserve will still be operating 24 C-130Bs, which are over 30 years old, have inadequate avionics, and are reaching unsupportability in some areas.

Thirdly, the Air Force Reserve needs defensive systems equipment for all of its tactical fighter, tactical airlift, rescue, and special operations aircraft. Aircraft surviviability in today's wartime scenario is highly dependent on the ability to recognize threats and either take evasive action or confuse the enemy's rocket or missile. Without defensive systems capability, recognition and reaction is impossible and the consequences are a very low survivability rate.

In the long term, we see a potential problem in retention of our Air Reserve Technician (ART) personnel because of civil service pay and benefits not keeping up with the military, much less with the private sector. We are seeing some of the same problems in retention of ART pilots that the services are having in retaining active pilots. The pay and benefits of the airlines are attracting many of our good people. We are just beginning to work this problem, but we may need a special civil service status for our ARTs. They would be Air Reserve Technicians first, and civil servants second, which will involve enhanced benefits and different rules for separation and retirement with pay. Also, we need to protect restoration rights to ensure ART and civil servant personnel are motivated to enter a statutory tour when mission needs dictate.

ASSIGNING NEW RESPONSIBILITY/MISSION TO RESERVES OR GUARD

Question: Rear Admiral Smith, Director of the Naval Reserve, when testifying before our subcommittee on Military Personnel and Compensation, raised an issue he said should be considered before a decision is made to assign new responsibility or missions to the Reserves or Guard. He referred to it as the "hidden question" and it is "will those Reserve/Guard assets be available if needed short of total mobilization? "Do you feel this is a valid concern, and if not, why?

General Scheer: I feel that this is a valid concern, but not one we need to fix by a change in law and/or by a redefinition of the term "mobilization." The Air Force routinely calls upon Reserve and Guard volunteerism to assist in peacetime operations. Significant contingency capability exists in the Air Force within the parameters of volunteerism. When military forces were committed to the Grenada rescue operation, to support the strike on Libya, and to a show-of-force deployment to Honduras (Golden Pheasant), the Reserve and Guard responded in the numbers requested without evoking involuntary action. They have responded in a like manner in the more distant past: Dominican Republic Crisis, the Zaire Airlift, the 1973 Yom Kippur War, the evacuation of Marines from Lebanon... There is no reason to doubt that this commitment and response will continue. The key point to consider before decisions on assigning additional missions in the future is that we should not place 100% of the force structure of any one mission area in the Reserve components. If a single mission area becomes unique to the the Reserve component, we lose long term contingency capability and the cost effectiveness of receiving trained individuals from the active components in that mission area.

EQUIPMENT COMPATIBILITY AMONG GUARD

Question: Former Secretary of Defense Casper Weinburger, in a June 1982 memo to the Service Chiefs, stated that they must ensure equipment capability among Guard, Reserve, and active units which will serve together in a battle. He also said that equipment inventories adequate for effective training are also essential.
To what extent does equipment capability exist between active and Reserve/Guard forces in the Air Force?
To what extent do Reserve and Guard components have adequate equipment for training (a) combat forces, and (b) support force?

General Scheer: Air Force Reserve equippage is, to the extent fiscal constraints allow, compatible and comparable with that operated by the active force. There are specific instances where more needs to be done. For example, the F-16 aircraft assigned to the Reserve and Guard units must be upgraded to be able to survive the increasing threat they will face in combat, and virtually all Reserve/Guard aircraft need some or better defensive systems capability. Our helicopter equippage needs to be modernized, as does our AC-130A gunship fleet.

In most cases, the equipment provided to Air Force Reserve units for training is more than adequate for training and day-to-day operations, and the special appropriations funds provided by Congress to allow for specific modernization or capability enhancement have allowed us to by-pass the Air Force's priority system in those cases where the level of hurt is most acute. Relative to other components or services, our gross statistics are very favorable. Most of the equipment shortages we are experiencing are shared with our Guard and active partners and the combat and support forces units all are equipped as well as is possible in the fiscal environment we face.

State of Readiness

Question: General Scheer/General Killey: Secretary Weinberger's 1982 memo to the Service Chiefs also said that "the Guard and Reserve forces must be prepared and maintained in a state of readiness for immediate use should the need arise." Have we achieved that requirement and if not, why? Is it a feasible goal?

General Scheer: We are prepared and are in the highest state of readiness in the history of the Air Force Reserve. All our indicators show it. The Status of Resources and Training System (SORTS) tells us that over 97 percent of our rated units have the equipment and trained people to carry out our wartime mission. Operational Readiness and Unit Effectiveness inspections in the past year have all been graded Satisfactory or above, with many inspections rated Excellent and Outstanding. We are confident that we can respond immediately, when required.

However, we still have shortfalls in the defensive systems which give us the ability to survive in moderate to high threat areas. We have used the miscellaneous equipment money that Congress has appropriated to purchase some of the needed ECM pods for our Tactical fighter units and are also procuring defensive systems for our airlift aircraft. As a result of your support we have achieved the requirement as stated in Secretary Weinberger's memo.

PERSONNEL AS MOBILIZATION ASSETS

QUESTION: During the last few years thousands of personnel have transferred from the selected reserve to the individual ready reserve. A sizable number of these are individuals who did not participate in required training, transferred for such reasons as poor performance, unsuitability, hardship, etc. In addition, personnel released from the active force for some of the same reasons are also assigned to the individual ready reserve. Is it reasonable to consider these personnel as mobilization assets?

Gen Scheer: As a result of the Individual Ready Reserve (IRR) mobilization screening exercises the past two years, it has been proven that the majority of Reservists assigned to the IRR can reasonably be considered as mobilization resources. Our participation rates of 81.5 percent in FY 1987 and 87.5 percent in FY 1988 have shown that most of our members are knowledgeable of their remaining military service obligation, that they can be contacted when needed, and that they will fulfill their obligations to participate when required. No direct correlation has been shown between members transferred to the IRR for unsatisfactory participation, hardship, etc., and those who have not appeared at mandatory screening sessions.

VOLUNTARY PARTICIPATION

QUESTION: While there is authority to require personnel in the individual ready reserve to participate in annual, active duty training, the usual practice is voluntary.
How can this practice assure that individuals with critical skills will receive refresher training?
What would be the advantages and disadvantages of requiring periodic active duty training for all members of the individual ready reserve or at least for those who have not completed an active duty tour?

Gen Scheer: The Air Force has already begun a formal program to assure that Individual Ready Reserve (IRR) members who possess critical wartime skills receive required refresher training. This year we are planning to combine the mandatory IRR screening program with an actual field test of our "PUSH-PULL" mobilization plan. We are directing certain IRR members who possess wartime shortage specialties (about 4,000 in FY 1989) to appear for an intensive 3 day exercise in which screening requirements, skill evaluation testing, and refresher training will be administered. Our program will simulate actual mobilization plans and procedures to the maximum extent possible. Required periodic refresher training for critically needed IRR members will reinforce our reliance on the IRR members as filler and casualty replacements, as well as contribute to increased wartime readiness within our entire Reserve components. In a period of ever-increasing budget constraints, however, providing this training for all IRR members will certainly result in fewer training dollars available for our first priority selected Reserve units and individuals.

Low Attrition Rates

The Air Force Reserve and Air National Guard have relatively low attrition rates in comparison to the Reserve and Guard components of the other Services. The loss rates of non-prior service personnel before their scheduled termination dates are similar to the other components. While your losses are not that high on a comparative basis, it would seem that the training costs to replace these losses would be of concern.

Question: What effect will attrition of non-prior service personnel have on the age profile of your force?

Gen Scheer: Historically, the Air Force Reserve has maintained a force of approximately 75-80 percent prior service members and 20-25 percent non-prior service members. Since most members are prior service members, we currently have and will presumably continue to have a force dominated by more experienced, older members. Because historically, the non-prior service and prior service mix has been consistent, we do not believe that our non-prior service losses have had, or will have in the future, a significant impact on the overall age profile of the force.

Question: Does the Air Force Reserve or Air National Guard have special programs or actions to manage this attrition?

Gen Scheer: Current programs/actions that the Air Force Reserve has to manage attrition include: Distribution of a monthly retention/loss statistical report to all commanders for their use as a tool to identify where their attrition problems are and where emphasis needs to be given to retain members; Development of the Air Force Reserve NCO Leadership Development Program, a course targeted at E-5/E-6 supervisors, which is specifically designed to meet the objectives of minimizing losses as they relate to supervision; Development and distribution of an exit survey to all members who leave the Air Force Reserve, which will reveal reasons why people leave; the Montgomery GI Bill and reenlistment bonus program, that contribute toward retaining members; enhanced unit participation procedures that require first level supervisors and commanders to become personally involved in a reservist's non-participation condition at its earliest stage.

Question: Are their special programs to assist Reservists who transfer because of their civilian jobs to find new units?

Gen Scheer: Air Force Reserve policy on assigning unit personnel who relocate their residence from one unit's commuting area to another provides that these members be given highest priority at their new location. The policy applies to officers Lt Col or below and enlisted members SMSgt or below. The purpose of the policy is to preclude the loss of experienced and valuable personnel who relocate their residence.

Question: Do the Air Force Reserve and Air National Guard provide information on available unit vacancies to each other? If not, are there any reasons why this could not be done?

Gen Scheer: The Air Force Reserve maintains information on unit vacancies within its own computer generated Reserve Management Vacancy System (RMVS). While this system is specifically designed for use by reserve recruiters and reserve personnel technicians in accessing individuals into the force, information on available vacancies is accessible and routinely provided to the Air National Guard and any other party who may inquire about reserve opportunities. Because of the ever-changing nature of available unit vacancies, experience has shown that the best way to obtain the most current information on vacancies is through direct contact with the recruiters and personnel technicians who work with the system on a daily basis.

Question: Is legislation required to correct some of these problems, and if so, can we be of assistance?

Gen Scheer: We do not believe additional legislation is required at this time to enhance our attrition management. We believe the programs and policies we have now and will strive to continually improve upon will help keep our attrition rates at a relatively low level. Continued Congressional support for the Montgomery GI Bill will significantly enhance our retention program.

Duty Position Qualification As A Problem

Both the Reserve Forces Policy Board and the General Accounting Office have identified duty position qualification as a continuing problem for many units and a major readiness degradation factor because many Reservists are unable to leave their civilian jobs in order to attend active duty training courses. For example most Reservists, and Guardsmen, receive 39 days of training a year, with much of it being accomplished on weekends, while the Air Force training schools are continuous and generally longer than five or six weeks.

Question: Are there Air Force training courses configured particularly for training Reserve and Guard technical personnel?

Gen Scheer: For the most part, the Air Force Reserve utilizes standard regular Air Force courses for skill qualification. We have requested reserve-unique training in cases where existing resident or field training courses were inappropriate or too lengthy, and the Air Training Command has been very responsive in this area. Examples of reserve-specific courses are Disaster Preparedness Officer/Technician, Aircraft Maintenance Officer, and Nondestructive Inspection (Radiographic) Technician courses.

Question: Do you primarily depend on on-the-job training to qualify personnel for their assigned duty positions?

Gen Scheer: In response to your second question, we rely upon formal resident technical training courses for initial skill qualification. On-the-job training (OJT) is used as a follow-on to this resident training to upgrade our reservists to the fully qualified skill level of their duty position.

Question: Why do loadmasters in C-130 units attend active Air Force courses for C-141 loadmasters?

Gen Scheer: With regard to the question on loadmaster training, loadmasters in C-130 units do not attend regular Air Force courses for C-141 loadmasters. All trainees attend a generic basic loadmaster course; they then attend specialized (C-130 or C-141) formal courses before returning to their units. Both the generic and weapon-system specific courses are conducted by the regular Air Force. Duty position qualification is not a problem in the AFR: over 98% of our personnel are qualified in their current positions.

Budget Request

Question: Your Fiscal Year 1990 Budget request is $64 million, or about 7.5 percent below your Fiscal Year 1989 appropriation. Please discuss the impact this reduction would have on your operations.

General Scheer: The change in our FY 1990 Operation and Maintenance budget request consists of an increase of $16.6 million for inflation and a reduction of $80.8 million based on programmatic decreases in FY 1990, one-time FY 1989 requirements and reduced funding due to budgetary constraints. The reduction in O&M funds will cause the following changes in Air Force Reserve operations:

a. To attain FY 1990 fiscal levels the Air Force Reserve sustained reductions in force structure through the loss of six F-16 aircraft at our Tinker AFB, Oklahoma unit and four C-130Bs at Peterson Field, Colorado and by relegating one Special Operations Forces and two Aerospace Rescue and Recovery aircraft to backup status.

b. Funds required to reimburse the Air Force Depot Maintenance Industrial fund for depot level maintenance performed on aircraft, engines and exchangeables have been reduced significantly below the FY 1989 level causing much needed maintenance to be deferred.

c. Resources to finance the maintenance and repair of existing Air Force Reserve facilities have been greatly impacted by across-the-board budgetary reductions. As the backlog of maintenance and repair increases each year the overall condition of our facilities will continue to deteriorate unless adequate funding is provided.
d. The Air Force Reserve has also absorbed additive costs in FY 1990 for civilian health benefits increases, higher than anticipated participation in the new Federal Employees' Retirement System (FERS), and increased costs for C-5 and C-141 Associate flying hours. In order to finance these cost increases, our civilian personnel program was reduced by 153 workyears which severely hinders the operation and administration of Air Force Reserve programs. We also require 188 military technicians for readiness enhancements in Air Force Reserve medical and combat support units.

Transfer of Funds

Question: The Fiscal Year 1989 Appropriations Act transferred $180 million from the Defense Stock Fund to Reserve accounts.
1. How much was transferred to your O&M account, and how are they being used in Fiscal Year 1989?
2. Were some of these funds annualized as directed by the Appropriations Act?

General Scheer: The Operation and Maintenance, Air Force Reserve appropriation received $40 million of the funds transferred from the Defense Stock Fund and were used for the items listed below. None of these funds were annualized into FY 1990 as directed by Congress.
a. Reengined six KC-135 aircraft transferred from the active Air Force ($18.0 million).
b. Funded aviation exchangeable requirements to prevent grounding of aircraft and minimize the impact in FY 1989 on readiness and sustainability ($9.8 million).
c. Restored funding for travel, transportation, supplies and equipment that was deleted to finance the absorption of the additional 2.1% civilian pay raise and a 20% increase in health benefits costs in FY 1989 (S8.6 million).
d. Eliminated the projected FY 1989 backlog of maintenance and repair of Air Force Reserve facilities ($2.6 million).
e. Financed the restoration of 44 civilian workyears at the Air Reserve Personnel Center that were erroneously reduced in the FY 1989 Amended Budget request ($1.0 million).

UPGRADED EQUIPMENT

Question: The Equipment used by the Reserve and Guard has been upgraded dramatically during the 1980's. Nevertheless, the Air Force Reserve and Air National Guard often have older model aircraft, aircraft that are no longer in the active force, and in some cases, older generation communication equipment.
During deployments, do your older aircraft present problems in terms of operational capability, maintenance operations or spare parts availability?
Many new tactical communications systems have been fielded during the 1980's. Are there any communications compatibility problems with the equipment you now have either with the active force or with other Reserve/Guard components?

General Scheer: By 1994, if present programming is followed, the Air Force Reserve will have retired all of its F-4s, C-130As, (including the AC-130A Gunship), and H-3 helicopters. We will be operating C-5s, C-141s, F-16s, and MH-60Gs, the same modern equipment operated by the Air Force. The Air Force has a number of initiatives and modifications programmed to address the capability enhancements and reliability/maintainability issues we will encounter as these aircraft age. Unfortunately, as active Air Force overall funding erodes in these areas, the Reserve aircraft also suffer from delayed improvements. Meanwhile, we presently have older aircraft and will continue to have, in many cases, the earlier models of modern aircraft where logistical support and operational capability are sometimes less than optimal. But we are blessed with talented people who are dedicated to overcoming adversity by finding innovative ways to overcome the lack of spare parts and support equipment. With the support of our maintenance personnel, the Air Force funding, and the Congressional special equipment funds, we have been able to keep our fleet of aircraft as ready as possible to meet the wartime requirement.

The Air Force Reserve does not have mobile communication units like the Air National Guard. Our Communications units have a fixed base wartime mission and the equipment is consequently not tactical in nature. With the support of the Air Force and the Congressional special equipment funds, we have been able to obtain required equipment for these units.

QUESTIONS AND ANSWERS FOR THE RECORD

submitted by:

BRIGADIER GENERAL PHILIP G. KILLEY
DIRECTOR, AIR NATIONAL GUARD

NUMBER ONE PROBLEM IN AF RESERVE

Question: What are the number one problems in the Air Force Reserve and Air Guard?

General Killey: Pay disparity for technicians and grade ceilings in the Active Guard/Reserve (AGR) force are two serious problems for the ANG. Current technician pay scales are not compatible with either military pay or private industry. Our on-board technician strength is 200 below the Congressionally approved floor. We are losing highly qualified technicians to high tech industry and to the airlines. We are also losing AGR pilots to the airlines because grade ceilings will not allow promotions. Grade ceilings for FY89 were held at the FY88 levels. All promotions will be frozen before the end of FY89. AGR personnel in all Guard units are questioning the integrity of what has been advertised as a career program.

ASSIGNING NEW RESPONSIBILITY/MISSION TO RESERVES OR GUARD

Question: Rear Admiral Smith, Director of the Naval Reserve, when testifying before our subcommittee on Military Personnel and Compensation, raised an issue he said should be considered before a decision is made to assign a new responsibility or missions to the Reserves or Guard. He referred to it as the "hidden question" and it is "will those Reserve Guard assets be available if needed short of total mobilization?" Do you feel this is a valid concern, and if not, why?

General Killey: Yes. Availability and readiness of Guard/Reserve forces are not concerns in time of national emergency. The 200,000, partial, full, or total mobilization will bring about a rapid and effective response from all reserve units. Reserve force augmentation into the active force structure in time of war has, and continues to be, the primary reason reserve forces exist. Missions performed by the active force, but augmented by the reserve component, best lend themselves to the reserve structure of limited manpower, training, and resources. Low peacetime and high wartime activity missions are ideally suited to the reserves. As the reserve component moves away from this traditional role, day-to-day training and operations must take new direction.

Status of Northern Tier Training System (NTTS) to be Constructed

Question: What is the status of the Northern Tier Training System that is to be constructed in Wisconsin and Michigan? I understand the required studies have been completed and funds authorized last year. Also, please describe the system and what it will be used for?

General Killey: After extensive study of facilities, available airspace and ground area, Volk Field, Air National Guard Field Training Site in central Wisconsin was chosen for installation of the NTTS. The NTTS is an Air Combat Maneuvering Instrumentation system (ACMI) which allows highly realistic air-to-air training for tactical aircrews. The system features electronic and ground based threat simulation, no-drop-bomb-scoring systems and air-to-air missile/gun simulators coupled with real-time kill removal. The most valuable feature of the system is its full recording and debriefing capability which will offer aircrews additional training after the actual flight on the ACMI range. Air National Guard, Reserve and Active AF aircrews will train on the Volk Field ACMI range.

Equipment Compatibility Among Guard

Question: Former Secretary of Defense Casper Weinberger, in a June 1982 memo to the Service Chiefs, stated that they must ensure equipment compatibility among Guard, Reserve, and active units which will serve together in a battle. He also said that equipment inventories adequate for effective training are also essential.

To what extent does equipment compatibility exist between active and Reserve/Guard forces in the Air Force?

To what extent do Reserve and Guard components have adequate equipment for training of (a) combat forces, and (b) support forces?

General Killey: The Air Force policy is to equip Guard aircraft with compatible capability with the active counterpart. Due to fiscal constraints, many times the modification and particularly ECM pods are funded for the Guard in the outyears after the active units are equipped.

In most cases the Guard has adequate equipment for training of combat forces and support forces. There are shortages in support equipment and other equipment such as simulators/aircrew training devices which require work arounds until the equipment can be made available.

State of Readiness

Question: Secretary Weinberger's 1982 memo to the Service Chiefs also said that "the Guard and Reserve forces must be prepared and maintained in a state of readiness for immediate use should the need arise." Have we achieved that requirement and if not, why? Is it a feasible goal?

General Killey: It is a very feasible goal for the Guard and Reserves to maintain forces in a state of readiness for immediate use should the need arise.

The Guard and Reserve are at levels of readiness unprecedented in a peacetime period. New and modern equipment in the units has contributed greatly to this readiness.

Some indicators that attest to this level of readiness are major inspections, deployments and C ratings. No flying unit has been rated unsatisfactory during the past year, with 70% of the units rated scoring excellent or outstanding. Deployments are happening every day all around the world. We rotate A-7s and C-130s to Central and South America continually and support scientific projects on both Poles and the Greenland Icecap. Guard tankers can be found anywhere in the world supporting deployments and search and rescue. The large Korean exercise, Team Spirit, had many Guard participants and much Guard support. RF-4Cs and the EC-130s fly real world missions in support of theater commanders. These are just a few examples of everyday Guard activities. As to C ratings: the overall C-levels have increased by eight percent over the past year. Ninety-five percent of our flying units maintain C-1 or C-2 with 90 plus percent of our mission support units maintaining C-1 or C-2.

Personnel as Mobilization Assets

Question: During the last few years thousands of personnel have transferred from the selected reserve to the individual ready reserve. A sizable number of these are individuals who did not participate in required training, transferred for such reasons as poor performance, unsuitability, hardship, etc.. In addition, personnel released from the active force for some of the same reasons are also assigned to the Individual Ready Reserve.

Is it reasonable to consider these personnel as mobilization assets?

General Killey: We foresee the majority of personnel in the IRR as responsive in the event of mobilization, although a number of members enter the IRR for less than favorable reasons and given technical skills tend to diminish over time. Recent test exercises support this observation. However, there is a percentage of IRR personnel which may not be responsive in the event of mobilization. In an attempt to minimize this group, we discourage Air National Guard units from transferring unsatisfactory participants and substandard performers to the IRR. Rather, we consistently recommend they be discharged with an appropriate characterization of service accurately reflecting their performance. However, a recent DOD policy decision infers all discharges from the IRR must be characterized as Honorable regardless of the member's performance or participation. If a member is to be given an Honorable discharge regardless of the quality of their service, there is little incentive for those members who are transferred based on either unsatisfactory participation or substandard performance to respond in an acceptable and viable manner. Therefore, we could be placed in the position of further jeopardizing our readiness posture.

Low Attrition Rates

Question: The Air Force Reserve (AFRES) and Air National Guard (ANG) have relatively low attrition rates in comparison to the Reserve and Guard components of the other services. The loss rates of non-prior service personnel before their scheduled termination dates are similar to the other components. While your losses are not that high on a comparative basis, it would seem that the training costs to replace these losses would be of concern.

What effect will attrition of non-prior service personnel have on the age profile of your force?

General Killey: Traditionally, our mix of enlisted accessions have been approximately 40% non-prior service (NPS) and 60% prior service (PS). Replacing NPS personnel lost through attrition necessitates an increase in either PS which increases the average age of the force or, increasing NPS which increases the cost of training. Regardless of the source of our recruits, the cost of training will be born by either the active force, the ANG, or another reserve component.

Question: Does the Air Force Reserve or Air National Guard have special programs or actions to manage this attrition?

General Killey: ANG regulations outline our Career Motivation Program which requires annual interviews with those members having less than 10 years in service. These interviews are conducted in an effort to identify career irritants at an early stage. As a consequence and in instances wherein the unit has control, a practical resolution can be effected thereby ensuring present and future personnel resources.

Question: Are there special programs to assist Reservists who transfer because of their civilian jobs to find new units?

General Killey: When these types of situations occur, both AFRES and ANG Base Career Advisors work together as a part of interservice recruiting to assist reservists in finding vacancies in other units/states.

Question: Do Air Force Reserve and Air Guard provide information on available unit vacancies to each other?

General Killey: Not in an active sense; however, the Air Guard is currently developing the "Reserve Vacancy Management System" (RVMS). This is an automated system designed to provide vacancy information to other ANG units, which can be implemented on short notice. The RVMS is currently being staffed through Manpower and Personnel. Accessible by an 800 number, AFRES would have equal access should the need arise. In addition, AFRES and Guard recruiters, at the unit level, extend professional courtesies to each other by way of recommendations to individuals they are unable to place. In many instances, these recruiters are collocated, thereby facilitating an open and interactive recruiting program.

Question: Is legislation required to correct some of these problems, and if so, can we be of assistance?

General Killey: Based upon the aforementioned, the ANG does not feel we require legislative relief.

Duty Position Qualification as a Problem

Question: Are there Air Force training courses configured particularly for training Reserve and Guard technical personnel?

General Killey: There are a number of Air Force training courses configured for Reserve and Guard personnel but certainly not all courses. Overall, approximately 8 to 10 courses are configured for us.

Question: Do you primarily depend on on-the-job training to qualify personnel for their assigned duty positions?

General Killey: In the non-prior service area, the majority (90 to 95%) of ANG personnel attend technical schools for the basic skills and utilize OJT for qualification to higher skills. In the prior service area, approximately 20 to 25% attend the basic skills technical school and the rest are qualified through OJT. All higher skill level training is obtained through OJT.

Question: Why do loadmasters in C-130 units attend active Ai. Force courses for C-141 loadmasters?

General Killey: The ANG schedules C-130 loadmaster training in the C-130 training courses using the C-130 aircraft. ANGSC/DOT knows of no C-130 loadmaster student attending active C-141 training.

Transfer of Funds

Question: The Fiscal Year 1989 Appropriations Act transferred $180 million from the Defense Stock Fund to Reserve accounts. How much was transferred to your O&M account?

General Killey: $50 million was transferred to the ANG, O&M account on 28 Feb 89.

Question: How are they being used in Fiscal Year 1989?

General Killey: $26 million for reengining eight KC-135A aircraft with JT-3D engines (converting them to KC-135E aircraft); $22.2 million for FY 1989 additional 2.1% civilian pay raise and additional 26% civilian health benefit premium increase; and $1.8 million for additional flying hours.

Question: Were some of these funds annualized as directed by the Appropriations Act?

General Killey: None of these funds were annualized.

Upgraded Equipment

Question: The equipment used by the Reserve and Guard has been upgraded dramatically during the 1980's. Nevertheless, the Air Force Reserve and Air National Guard often have older model aircraft, aircraft that are no longer in the active force, and in some cases older generation communication equipment.

During deployments do your older aircraft present problems in terms of operational compatibility, maintenance operations or spare parts availability?

Many new tactical communications system have been fielded during the 1980's. Are there any communication compatibility problems with the equipment you now have either with the active force or the other Reserve/Guard components?

General Killey: The Air Force total force policy is to equip active duty and reserve component forces with compatible capability. This policy has been revitalized in recent years with an aggressive modernization program of reserve component force structure. The replacement of older tactical aircraft with modern aircraft such as the F-15, F-16, and A-10 has been the most visible sign that our Air Force is a total force with active and reserve components which plan to fly and fight as a team.

Less visible, but an important pillar of operational compatibility, is the ongoing modification of the Guard fleet. Witness the air defense modification to the F-16, the multi-staged improvement program for the F-15, and the self-contained navigation system for our C-130 aircraft. For those Guard unique systems such as the A-7 aircraft, joint training and exercises such as Red Flag and Maple Flag have minimized the effects of equipment differences and have resulted in a high degree of operational compatibility necessary in combat. In spite of these programs, additional effort is needed to insure that our total Air Force retains sufficient compatibility to fight together on a modern day, and night, battlefield.

Fiscal challenges during the past few years have scaled back programs intended to achieve the high degree of compatibility we need to fight and win. Reduced F-15/F-16 aircraft procurement has slowed the flow of these modern aircraft into the Guard and has resulted in a number of our units operating with fewer assigned aircraft. These challenges have spread into the modification and support worlds where reduced funding has slowed mod line output and shortages of support equipment for our aircraft have required workarounds until sufficient equipment can be obtained. Because of the reduced fiscal authority, funding for Guard modifications and equipment procurement (such as we have seen for Electronic Countermeasures pods) have been delayed into the outyears. From the spares standpoint, when the Guard participates in deployments there is a requirement to take all spare parts and support equipment required for those unique weapon systems, since parts are not available at the deployment location. Also, decreased funding in Air Force replenishment spares and exchangeable parts repair results in some parts shortage for unique systems. While the fiscal environment has not squelched operational compatibility between active and Guard units, it has resulted in Guard equipment capabilities lagging those of the active component.

With regard to compatibility of communications equipment, the lack of standardized communications electronic (C-E) equipment and the need to accept inadequate capability will not be resolved until all modern equipment is made available to all Air National Guard units. Due to the obsolescence of the significant part of the Guard's combat C-E equipment, interoperability with US and allied forces will be extremely difficult. The situation is particularily critical since the ANG has mission responsibility for 66% of the Air Force's combat communication capability.

QUESTIONS AND ANSWERS FOR THE RECORD

submitted by:

MAJOR GENERAL EDMUND P. LOONEY, JR.
DIRECTOR, MARINE CORPS RESERVE

MEASUREMENT OF MARINE CORPS RESERVE READINESS

Question: Who evaluates Marine Corps Reserve unit readiness and why are you confident that such assessments are valid indicators of Reserve unit readiness?

Gen Looney: Readiness in the Reserve is measured at battalion/squadron level by several systems providing, for the most part, objective, quantifiable grades. The Marine Corps Combat Readiness Evaluation System (MCCRES) is administered triennially by division to its units. Scores are derived from a unit's ability to perform combat oriented tasks (to active force standards). The scores are then analyzed to point out strengths and weakness which can be addressed by future training to attain full combat readiness.
The Mobilization Operational Readiness Deployment Test (MORDT) is a Reserve specific program to measure the ability of units to mobilize. This "no notice" test is also administered every 3 years by the 4th Marine Division and 4th Marine Aircraft Wing to their respective company/squadron sized and larger units. Again, scores are measures of an unit's ability to carry out specific tasks related to mobilization.
The Status of Resources and Training System (SORTS) grades units in four resource areas: personnel, equipment supply, equipment readiness, and training. Grades are given as "C-levels" and correspond to a percentage of personnel fill, MOS match, equipment fill, and equipment operationally ready. The training resource area is the only subjective score, based on the unit commander's assessment of how many weeks of training his unit would require to become combat ready for training purposes.
All three programs are conscientiously implemented and provides hard, quantifiable grades to unit commanders, and higher headquarters, for determining individual unit readiness.

SENATOR SYMMS ARTICLE ON THE BETTER INTEGRATION OF RESERVE AND ACTIVE FORCE

Question: A recent article in Defense News about how we should better integrate the Reserve forces with the

Active forces in ways that may better provide national defense without reducing the readiness of those units. Do you agree with the Senator's approach, and what is the Naval Reserve and Marine Corps Reserve doing to improve the integration of Active and Reserve forces without impairing mission capability and readiness?

Gen Looney: The Marine Corps Reserve continues to train under the total force policy, integrating Reserve and Active units during exercises to the maximum extent possible. Our designated augmentation unit program beginning this year matches Reserve combat arms and combat support units with Active component organizations for training and contingency purposes. As this program matures, combat service support units will be included. Reserve readiness is enhanced by this integrated approach to training providing for smooth transition of the Reserve into the Active component. Integration of Active and Reserve units during crises to meet operational requirements short of mobilization, as the Senator points out in his article, is extremely rare. We would welcome the opportunity to contribute to Active force requirements short of mobilization and stand ready to do so.

TRAINING ACTIVITY AND READINESS

Question: Recently, the Assistant Secretary of Defense testified before the military personnel and compensation subcommittee that there is little objective linkage between training activity and readiness. If that is so, then how do we know what level of training will give us the greatest return in terms of readiness. Do you agree with the Secretary's observation and would you care to comment on the relationship between training and readiness?

Gen Looney: Most Reserve training is linked closely to readiness and can be objectively measured. Entry level training and other MOS training contribute directly to a unit's readiness measure. The Mobilization Operational Readiness Deployment Test (MORDT) is a no-notice test of a unit's ability to mobilize and provides an objective evaluation of their readiness. The Marine Corps Combat Readiness Evaluation System (MCCRES) measures a unit's combat capability during realistic, combat oriented, exercises. These tests are administered every 3 years. A unit's performance in exercises other than MORDT and MCCRES is more difficult to evaluate objectively. In these cases the unit commander makes a determination of his units training as it relates to readiness based on a clear understanding of his unit's mission.

HORIZONTAL INTEGRATION

Question: The Naval Reserve and Marine Corps Reserve have succeeded in establishing a policy of "horizontal integration" for the modernization of equipment as a "mirror image" of similar programs in the Active forces. How well is this policy working out in practice and do you have any concerns about the ability to continue "horizontal integration" in a period of austere defense budgets?

Gen Looney: Horizontal integration has continued to facilitate modernization of the Reserve and places continuous emphasis upon achieving and maintaining a single equipment inventory. This process ensures organizational integrity, maintenance compatibility, single generation supply support and battefield interoperability within the total force.

TOTAL FORCE CONCEPT

Question: In recent years, we have heard a lot about the total force concept and why it is a vital element in our overall national security posture. How well has the total force concept been implemented by the Navy and Marine Corps and what more needs to be done to bring it to total fruition?

Gen Looney: The total force concept has evolved into total force reality within the Marine Corps. Our most recent effort was the elevation of our Reserve to the three star level under the Deputy Chief of Staff for Manpower and Reserve Affairs. This realignment provided optimal integration of Reserve and Active components and capitalized on the management expertise within our former Manpower Department. This realignment will also ensure maximum opportunity to effectively plan for the utilization of Reserve forces.

SHIP REPAIR AND AIRCRAFT DEPOT MAINTENANCE

Question: The subcommittee has been somewhat concerned about the steady growth in the Navy and Marine Corps Depot maintenance backlogs in recent years and the fact that they are projected to continue to grow in FY90/91. Has the growth in these backlogs created any significant problems for the Naval Reserve and the Marine Corps Reserve readiness or in their ability to fulfill their missions?

Gen Looney: Currently, there is no Reserve ground equipment backlog identified. Therefore, there is no effect on the Marine Corps Reserve readiness or their ability to fulfill their mission due to backlogs in Reserve depot maintenance.

MARINE CORPS RESERVE PERSONNEL TURNOVER

Question: On page 2 of your prepared statement, you indicate that the Marine Corps Reserve has achieved a nearly 10 percent reduction in Selected Marine Corps Reserve personnel turnover. That seems pretty impressive, but I see that the turnover rate is still 27 percent a year which seems high. What turnover rate would you like to see and what is being done to achieve that goal.

Gen Looney: The current 27 percent turnover rate approximates the desired steady-state rate for the Selected Marine Corps Reserve. When turnover approaches a lower rate as a result of attrition goal setting, the rate of non-participation begins to rise as individual unit commanders retain non-performers in an attempt to meet those attrition goals. This indicates that a lower turnover rate imposes an undesirable artificial constraint on our Reserve population.

The increased communication of job market information on a national scale, as well as the mobility of the labor force, place upward pressure on Reserve attrition rates. The 27 percent turnover rate, when compared with the Marine Corps active FY88 enlisted turnover rate of 21 percent for a 100 percent obligated force, approximates an expected rate for a force that is less than 68 percent obligated and increasingly mobile.

HORIZONTAL FIELDING OF EQUIPMENT

Question: On page 12 of your prepared statement, you say that horizontal fielding of equipment has always been considered paramount to enhance the partnership of the Marine Corps Reserve with the active Marine Corps. Are you satisfied with current and projected horizontal fielding efforts, or do you think more needs to be done?

Gen Looney: The determination of equipment requirements for all Marine Corps units, both Active and Reserve, is accomplished through development and use of a single Acquisition Objective (AO). The AO includes equipment modernization plans and addresses all initial issue quantities and planned sustainability requirements for active units and Marine Corps Reserve early deploying units. The Marine Corps Reserve has always been an active participant in the development of the AO, and will continue to visibly enhance concurrent equipment fielding and modernization.

FORCE STRUCTURE INITIATIVES

Question: One of the elements in recent Marine Corps force structure changes was to transfer some of the "heavier" unit missions into the Reserve, as these capabilities would be more likely to be needed upon mobilization. Do you agree with this change and does it present any problems for the Marine Corps Reserve?

Gen Looney: The force mix and structure enhancements resulting from the CMC warfighting initiatives have been thoroughly reviewed with respect to mission capabilities, facilities, equipment, training, recruiting demographics (prior service/nonprior service), projected mission ready status and funding. These present formidable challenges but with deliberate planning and direction can be achieved.

UNIT TRAINING

Question: On page 17 of your prepared statement, you mentioned that Marine Corps Reserve units participated in a number of major exercise in the United States and abroad involving 23,000 reservists in FY88. Are you going to be able to maintain this level of Marine Corps Reserve participation in major exercises in FY89, 90, and 91, and, if not, why not?

Gen Looney: We anticipate maintaining the same level of exercise participation in FY89-91 as we had in FY88. Integrated exercises will continue to increase as the designated augmentation unit program expands. Joint, joint/combined exercise participation will remain at current levels. Exercise scheduling, however, is always subject to funding availability and mission requirements. These factors could increase or decrease Reserve participation in major exercises. For example, if Operations and Maintenance (O&M) dollars are decremented, exercise frequency and duration might be curtailed.

WEAPON SIMULATOR TRAINER

Question: I understand the Marine Corps Reserve has procured a tank simulator trainer with the help of the Guard and Reserve funds. Can you please tell the committee how successful this system is and how other simulators procured through the Guard and Reserve fund are helping in the area of readiness?

Gen Looney: The Marine Corps Reserve would like to especially thank the Congress for the Guard and Reserve funds allowing us to purchase the Marine Corp Tank Full Crew Integrated Systems Trainer (MCTFIST) simulator for the M60A1 tank. Two units are pending delivery. We have no current data demonstrating how effective the MCTFIST is, but preliminary indicators are it will keep the tank crews proficient without leaving the drill site. The use of simulators allows the Marine reservists the quality of field training without the expense of traveling to the field. We are planning to procure and use more simulators as the funds become available.

QUESTIONS AND ANSWERS FOR THE RECORD

submitted by:

REAR ADMIRAL F. N. SMITH
DIRECTOR, NAVAL RESERVE

TRAINING ACTIVITY AND READINESS

QUESTION: Recently, Assistant Secretary of Defense Grant Green testified before the Military Personnel and Compensation Subcommittee that there is little objective linkage between training activity and readiness. If that is so, then how do we know what level of training will give us the greatest return in terms of readiness. Do you agree with Secretary Green's observation and would you both care to comment on the relationship between training and readiness.

ANSWER: In the Naval Reserve there is a direct linkage between training and readiness to the extent that our readiness ratings are the measure of training and qualification.

The cornerstone of the Naval Reserve training system is the program Navy Training Plans (NTP). These are requirement documents that have been written for each Reserve program. They specify the Selected Reserve training requirements within a particular program including all support requirements such as classroom, instructors, curriculum, number of school quotas and equipment. From the requirements within the NTPs, billet specific training plans are developed. These plans, called Reserve Billet Training Plans (RBTP) for surface Reserve programs and Reserve Training Tracks (R-Tracks) for aviation Reserve programs, are reviewed by the Reserve component, the active sponsor and the active gaining command yearly. If an NTP does not yet exist for a particular Reserve program, RBTPs or R-Tracks are developed based on requirements delineated by the active sponsor and active gaining command. RBTPs/R-Tracks address individual skill, watch station, and mobilization billet unique training and qualifications. Point values are assigned to the various segments of training and qualification to emphasize the most critical elements and to provide a measure of how much readiness is achieved by an individual in the billet. A composite of all RBTPs/R-Tracks of a unit drives the unit training plan; the composite of all unit training plans drives our school quotas, as well as new curriculum development, training device acquisition, and all other functions of training support. Our field commands are evaluated on the readiness of their units, thus giving motivation to waste no time on training not directly affecting readiness.

CAUTIONS ON THE NUMBER OF MISSIONS TRANSFERRED TO THE NAVAL RESERVE

QUESTION: On page 6 of your prepared statement, you seek to caution Congress about the number of additional missions that can be transferred into the Naval Reserve. Your chief concerns seem to be that Congress must also provide an adequate number of active duty manpower to support the increased Reserve missions, and to ensure that Reserve assets are available to carry out those missions short of total mobilization. Would you expand on those issues and tell us what additional active duty support is required and what must be done to increase the availability of Reserve assets short of total mobilization?

ANSWER: One of my concerns is that adequate full-time support personnel and resources come with any additional missions assigned to the Naval Reserve. But before that even becomes a consideration, any shift from Active Duty Forces to the Reserve must be accompanied by (1) reduction in Navy's peacetime commitments (this is essential to maintain present perstempo), and (2) absolute assurance that Reserve personnel and units will be accessible through involuntary recall under 10 USC 673b to respond to operational missions which cannot be satisfied by reduced peacetime forces.

FUNDING FOR PERSIAN GULF OPERATIONS

QUESTION: I understand that the Naval Reserve has made a considerable contribution to the Navy's operations in the Persian Gulf, including five Naval Reserve minesweepers and two guided missile frigates. During a recent hearing on the FY 1990 and 1991 Navy O&M request, we were told that it did not include funding for Persian Gulf operations above the pre-"tanker war" levels. Is this the same for the Naval Reserve request and, if so, how will you support operations in the Persian Gulf if they actually continue into FY 1990 and beyond?

ANSWER: Funding for operation of Naval Reserve ships while in the Persian Gulf is through the Operation & Maintenance, Navy not Operations & Maintenance, Naval Reserve appropriation. This funding policy is predicated on the fact that these ships are conducting an "active", rather than "Reserve" mission; and therefore use of Reserve funding would be inappropriate.

DRUG INTERDICTION

QUESTION: Do you feel it would be possible for the Naval Reserve to increase its drug interdiction efforts in the coming years without interfering with its other missions?

ANSWER: Yes, in certain mission areas. For instance, we could use a Reserve squadron over an extended period of time on drug operations in the Caribbean area where we have access to the ASW range, rotating crews between drug missions and readiness training. The extent of this contribution would depend upon the availability of the Reservists. To be most effective, ensure crew integrity and the right mix of skills, Reserve personnel should be accessed by involuntary recall.

Any significant Reserve participation as part of normal drills and periods of active duty for training would result in a degradation of mobilization training and be less effective.

HORIZONTAL INTEGRATION

QUESTION: The Naval Reserve and Marine Corps Reserve have succeeded in establishing a policy of "horizontal integration" for the modernization of equipment as a "mirror image" of similar programs in the active forces. How well is this policy working out in practice and do you have any concerns about the ability to continue "horizontal integration" in a period of austere defense budgets.

ANSWER: The policy of "horizontal integration" for the Naval Reserve continues to have strong support within Navy. This is true of the proposed modernization of the FFG-7 class frigates in the Naval Reserve Force (NRF) which will all receive the AN/SQQ-89 ASW Combat System upgrade. This is also true for introduction of new aircraft in the Naval Air Reserve. Upgrades and modernization of other NRF ships and squadrons are scheduled.

We are, of course, concerned with cuts in the defense budget which may impact on the ability to continue "horizontal integration." The Naval Reserve fully participates in the Program Objectives Memorandum (POM) budgeting process. We are working closely with the warfare resource sponsors within Navy to monitor how best to utilize limited funding to continue "mirror imaging" of Naval Reserve Forces. We are optimistic that our resource sponsors will continue to see that maintaining a strong and viable Naval Reserve is particularly beneficial during periods of austere defense budgets.

COMBAT SEARCH AND RESCUE

QUESTION: For a number of years this subcommittee has been concerned about the capability of Naval Reserve Combat Search and Rescue Squadrons to perform their missions. What has been done to improve this capability and what more needs to be done?

ANSWER: New HH-60H helicopters have been procured to replace the old HH-3A helicopters currently used for this mission. Deliveries to our first Helicopter Combat Support (Special) Squadron start this summer (July - Aug 89) and the second squadron will be commissioned October 89 and receive this new helicopter next winter (Jan - Feb 90). The HH-60H represents a quantum leap in mission performance over the HH-3A. Funding has not been available to fully outfit these helicopters with some of the war fighting and survivability items that would enhance mission performance. Approximately $8.4M would provide 18 helicopters with Global Positioning System (GPS), AAR-47 Plume detector, AVR-2 Laser Warning system, ALE-47 Flare/Chaff dispenser, ARS-6 Downed Aviator Locating System and fuel boost pumps.

While these equipment acquisitions have enhanced the Combat Search and Rescue function, the feasibility of placing the entire mission area in the Naval Reserve remains an unanswered question. There are many mission areas where it would be both practical and cost effective to be in the Reserve but Navy is reluctant to do that because there is no absolute assurance that Reservists will be accessible if needed in crisis situations short of full mobilization.

REGULAR DEPLOYMENT OF NAVAL RESERVE FORCE SHIPS

QUESTION: Why couldn't the Naval Reserve use volunteer Reservists to support regular deployment of NRF ships?

ANSWER: We have used some volunteer Reservists in the Persian Gulf including the deployment of two NRF frigates.

We had 10 volunteers for every billet required aboard the frigates. However, through voluntary recall, we were unable to match the individual volunteers with the specific rate/rating requirements. Unless we use involuntary recall under Title 10 USC 673b, and call up the SELRES crew that has been trained to operate and fight with their ship, there is no guarantee we will get the specific rate and rating required. In addition, participation by Reservists on a voluntary basis could create a contentious relationship with civilian employers.

READINESS CENTERS

QUESTION: I understand that about forty Naval Reserve Centers have been designated as "Readiness Centers". Why was this done and how does this initiative contribute to Naval Reserve Readiness?

ANSWER: Forty Naval/Naval and Marine Corps Reserve Centers were selected for designation as "Readiness Centers" (REDCENs) as one part of the Surface Program to Upgrade Readiness (SPUR), a package of several initiatives designed to correct Surface Reserve discrepancies reported in a 1983 Navy Inspector General report. SPUR was approved for phased implementation by the Secretary of the Navy in 1988.

REDCENs are designed to provide training in specific training areas of concentration to Reservists assigned locally as well as on an exportable basis to Reservists at other activities. REDCENs not only augment traditional active duty for training and use of fleet training activities but also provide flexibility for providing new initiatives such as interactive video and civilian augmented training. Without additional resources, REDCENs are a cost effective approach to achieving better local weekend training for Reservists throughout the country. Through this method of improved training it is expected that overall individual training qualification levels will improve. Readiness Center resource requirements are defined in detail by Area Navy Training Plans. These plans specify the aggregate individual Selected Reserve training requirements for the geographic area, and, from this, all support requirements such as classrooms, instructors, curriculum, formal school seats, and laboratory space/equipment can be identified. Although only eight REDCENs have been officially established at this time, many elements of SPUR have been implemented and the overall trend in Surface Reserve readiness training is upward and will continue as the remaining REDCENs are established over the next four years.

FULL TIME SUPPORT PERSONNEL

QUESTION: I understand that the Naval Reserve is programmed to increase in full time support personnel end strength from almost 22,000 to a little over 24,000 by FY 1992. This seems like a pretty significant growth in support personnel in a period of level defense budgets accompanied by little growth in the size of the Selected Reserve. Why is this increase necessary and what would happen if Congress authorized only part of this growth?

ANSWER: Most of the growth in FTS occurs after FY 1991. Between the end of FY 1989 and FY 1991, FTS end strength increases by 1574 to 23,565, and another 2,258 by the end of FY 1992 to 25,823. Only the increase from FY 1989 through FY 1991 can be defined in budget detail at this time.

Although they are termed "support", most of the increase in FTS is required to fill operational billets aboard additional ships being transferred to the Naval Reserve Force (NRF). Between FY 1989 and the end of FY 1991, the NRF will receive 12 frigates and 2 amphibious ships. In response to your committee's direction in previous years, Navy mans the active portion of NRF ships' crews with a high proportion of TAR personnel, relying on USN personnel only when TARs are not available in sufficient numbers or where TAR ratings do not exist. This policy, combined with the fact that a high proportion of an NRF crew must be active duty (TAR or USN) in order to conduct minimal ship operations, results in higher FTS growth relative to Selected Reservist growth than is required in other Reserve programs.

In addition to the FTS growth for ship crews, there is an accompanying increase in FTS support of maintenance activities at Reserve homeports. This is required because the reduced active manning of NRF ships causes some ship's work to be delegated to shore maintenance activities.

Finally, some of the growth between FY 1989 and FY 1991 is associated with the continuing conversion of existing NRF ship billets from USN to TAR that is made possible as the TAR rating structure is expanded. Thus, the requested growth includes manning not only for new NRF ships, but also for ships that joined the inventory in prior years, as Navy adjusts the manning mix to the desired goal.

Since the requested growth primarily relates to hardware coming to the Naval Reserve, failure to realize that growth will result in either Reserve ships that are not capable of conducting operations, or delay of planned transfers.

TOTAL FORCE CONCEPT

QUESTION: In recent years, we have heard a lot about the Total Force concept and why it is a vital element in our overall national security posture. How well has the Total Force concept been implemented by the Navy and Marine Corps and what more needs to be done to bring it to total fruition?

ANSWER: The Total Force is no longer a concept, it is a reality. Changes and accomplishments include:

- o The Naval Reserve has grown by 50% in eight years.
- o New missions have been placed in the Naval Reserve.
- o Modern equipment that is compatible with the Active Forces has been provided to the Naval Reserve.
- o The Naval Reserve is now a capable and ready force.

Whether the Total Force is effective is, and will remain, questionable until the issue of accessibility of Reserve personnel short of total mobilization is resolved. There needs to be firm assurance of Reserve availability in crisis situations, short of national emergency, in order that Active Force commanders may place a high degree of reliance on the Guard and Reserves.

QUESTIONS: Has there been more meaningful Reserve involvement in the Department of the Navy decision making and budget process?

ANSWER: The Naval Reserve has participated fully and meaningfully in the Navy programming and budgeting decision making processes. The Deputy Director of Naval Reserve and the Director of Naval Reserve are assigned to the Program Development Review Committee and Program Review Committee, respectively, through which Navy programs for both the regular and Reserve components are developed. These are flag-level decision-making bodies, as is the CNO Executive Board, or CEB, forum in which we also participate whenever Reserve issues are under consideration. Through these formal coordination, review and decision-making bodies, the Naval Reserve is afforded a full opportunity to participate in program development.

The same is true in the budgeting arena in which the Commander, Naval Reserve Force, as a major claimant within the Navy, is a full and active participant in the development and execution of budgets for support of the Naval Reserve.

As a result of the above, the Naval Reserve has had the fullest opportunity for continued meaningful involvement in the Department of the Navy decision making and budget process.

SHIP REPAIR AND AIRCRAFT DEPOT MAINTENANCE

QUESTION: The subcommittee has been somewhat concerned about the steady growth in the Navy and Marine Corps depot maintenance backlogs in recent years and the fact that they are projected to continue to grow in FY 1990 and 1991. Has the growth in these backlogs created any significant problems for the Naval Reserve and the Marine Corps Reserve readiness or in their ability to fulfill their missions?

ANSWER: There is no backlog in the ships maintenance program. Executable aircraft depot maintenance backlogs for the Naval Reserve were first projected to begin in FY 1989. Executable backlog for FY 1990 is currently projected at $31.6 million and $43.1 million in FY 1991. The impact of this backlog is that aircraft will not be available for readiness training while awaiting rework or receipt of modifications necessary to make the aircraft compatable with the active inventory. The backlog will likely result in some deterioration of readiness training, and is a matter of vital importance.

SPECIAL OPERATIONS FORCES O&M BUDGET REVIEW

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Tuesday, March 14, 1989.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 2216, Rayburn House Office Building, Hon. Earl Huttc (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will come to order.

This morning, the subcommittee will continue its hearings on the Readiness budget of the Department of Defense, and, at this time, we will move to a subject that has come under a great deal of congressional oversight during the last few years.

Special Operations Forces are, I believe, a critical element of our overall defense strategy. The former chairman of this subcommittee, Dan Daniel of Virginia, also strongly believed in Special Operations Forces; so much so, that he was the original author of legislation that established a separate unified Special Operations Command and an Assistant Secretary of Defense for Special Operations and Low Intensity Conflict.

I share Dan Daniel's interest and enthusiasm and will carry on to see that his initial efforts are implemented and that we succeed in providing the Special Operations Forces with all that is necessary to achieve the goals that Congress has set.

To bring everyone up to date, let me summarize where I believe we are at this point. In the last Congress, there was legislation enacted that clarified the functions of the Commander of the Special Operations Command (CINCSOC) and to clearly assign to the CINCSOC the responsibility for preparing and executing budget proposals for Special Operations Forces.

Subsequent to this legislation, several Members of both bodies of Congress expressed concern that the Department of Defense may have misinterpreted that legislation, and, in fact, we had a hearing at the end of last year to ascertain just where the Department was on this issue.

I am happy to report that the Deputy Secretary of Defense, on January 24, 1989, instructed all military departments to fully implement Major Force Program 11 and that CINCSOC was to prepare and begin total execution of this program by fiscal year 1992.

Today, I believe that it would be useful for the subcommittee to hear from our witnesses on how they view this implementation. We all recognize that the task CINCSOC has been assigned is new and altogether unique for a unified commander; however, it is my intention to watch the process and to see it through.

If there are problems, we want to hear of them. We would also like to hear on how the operations and maintenance budgets for the Special Operations Forces are doing.

Everyone would agree that during the past few years and for a few years to come, O&M budgets have been and will be severely strained. We would like to know what effect this budget tightening will have on training, ammunition, spare parts, and other associated SOF operations and equipment will be.

Mr. Kasich, our Ranking Minority Member, is not here at this time. But along with being the Ranking Member of this full Subcommittee on Readiness, John was the Ranking Member of the Special Operations Panel in past years. This year we have agreed to oversee the Special Operations Forces from the full subcommittee. The other Members of the subcommittee and I have benefited greatly from his expertise and enthusiasm and look forward to his able assistance as we proceed, and I would at this point ask that his statement be placed into the record.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

I would like to thank Chairman Hutto for his remarks, and I want to take this opportunity to welcome Mr. Russ and Major General Porter, who will review for us the fiscal year 1990 Operations and Maintenance request for the Special Operations Forces.

I would also like to express my personal satisfaction at Deputy Secretary of Defense Taft's directive of January 24th regarding the full implementation of Major Force Program 11. This is the sort of result that the late Dan Daniel worked so hard to see achieved. There had been much contention between Congress and DOD over the interpretation of our Special Forces legislation; I am happy to see that those problems have been resolved.

World events continue to confirm the fact that low intensity conflict is the major form of conflict we face in the current security environment. That means well-trained Special Operations Forces are crucial to our national security needs. However, we have seen in recent hearings how the constrained budget situation has impacted of the services' readiness goals. Special Operations Forces are even more dependent on their O&M budgets than the services are for maintaining a high degree of readiness. This subcommittee must ensure that Special Operations Forces receive the resources they need.

Thank you, Mr. Chairman.

Mr. HUTTO. We are very pleased to have with us this morning Mr. John Russ, Deputy Assistant Secretary of Defense for Resources (Special Operations/Low Intensity Conflict) from the Department of Defense, and Maj. Gen. William J. Porter, United States Air Forces, the Director of Resources, for the Special Operations Command for the Department of Defense .

Gentlemen, we are very pleased that you are here with us this morning. Mr. Russ, you may proceed as you see fit.

STATEMENT OF JOHN M. RUSS, DEPUTY ASSISTANT SECRETARY OF DEFENSE (RESOURCES), OFFICE, ASSISTANT SECRETARY OF DEFENSE (SPECIAL OPERATIONS/LOW INTENSITY CONFLICT)

Mr. Russ. Good morning, Mr. Chairman. I have a statement and with your permission, I will just have it placed in the record and then I can move on to sort of an overview.

Mr. Hutto. Without objection, that will be done. Your entire statement will be placed in the record.

Mr. Russ. Thank you, sir.

I think there are three areas that have merit for me to touch on this morning before we get into questioning. Those three areas are basically these:

What is the overview of the budget that is now before you and that budget, of course, is Mr. Reagan's submission. It is being looked at now for modification within the building.

The second point is to discuss what we've been doing over the last year to execute those dollars that have already been approved.

Last, I know there's considerable interest regarding implementation of the clarified legislation that you spoke to just a moment ago.

So I would like to move into those three areas and then, of course, give a particular expanse into the readiness portion of the President's budget for MFP-11.

Basically, if you compare our budget from fiscal year 1988-1989, you will see a significant increase—it's over a 40 percent increase. As my statement indicates, this is the first symbol and indication that we have stepped up to many of the SOF initiatives that I know you, sir, and others, have been emphasizing for so many years.

So if you look at the 1989 program that was approved, it came in at $2.8 billion in the President's Budget and was actually increased after close scrutiny. You'll see that the budget for fiscal year 1989 is at $3.2 billion.

This 40 percent increase is being continued into the 1990 program, and you will see that it's basically a flat program at $3.2 billion in the first of the 2 biennial years for which we are now asking authorization and appropriation. In real terms, you will see that it actually represents about a 3.3 percent negative growth rate.

These 2 years (1990 and 1991), and the 1989 budget that's been approved last year and, of course, the prior year programs, are essentially the watershed years for MFP-11.

As you then will look into 1991—and those of your staff will have looked into the outyears—you notice we then go into a decline situation because of the fact that most of the aircraft programs which drive the overall shape of the funding profile for MFP-11 start coming in behind us as we fulfill our SOF initiatives.

The 1991 program in an absolute term relationship to 1990 is actually an 18-percent real growth downturn. The budget will then decline continually into the mid-1990s until we reach about the 1993-1994 period when we again will see an increase. That increase is due to two major causes—again, in the investment area. You will see an increase as we move into the procurement of the CV-22A program following the Marine Corps program.

The second portion of it is—and it doesn't show up and hit you too hard—is that you will see an increase in some of the naval platform programs currently in development.

So that is the general shape of the curve.

The key point is, though, if you look at the watershed years of 1989 and 1990, you will see we are only over slightly 1 percent of the DOD budget request. So there's been a lot of attention on this 1 percent—it still is 1 percent. Then we move, as we look into the decline years, in the neighborhood of about eight-tenths of a percentage point, assuming that we do get the 1990 program that we now have before you essentially intact following your deliberations.

The readiness portion of the program has had about a 35 percent increase. It is the area that you're most interested in here today. This 35-percent increase you'll see in two areas. Basically, you'll see it in the Air Force programs, as well as in the Navy programs. The Navy program in particular has been of major concern to us, and the 1989 additional moneys that we received helped us in the near-term problems.

You were asking for particular points on what this is doing in the field. I'll let General Porter answer some of that, but from a funding standpoint alone, the Navy Gulf operations had to get well—the dollars that were being spent there.

In 1988, we had about a $5.5 million program. In 1989, we expect at the year's end to be at about $2.5 million. So we're cutting that in half. There are, of course, no funds targeted at this point within the O&M accounts for any operations in 1990–1991. It's policy not to budget for those types of situations.

But for the additional amounts of money that we did receive, we are now in the neighborhood of $100 million a year, we did receive a surge of funding—$35 million for naval operations. Those dollars went to get-well type activities: preparing craft, particularly the patrol boat coastals that were being used in Gulf operations. So out of that $35 million, for instance, $11 million went there.

Related consumables of the SEALs add about another $10 million; the remaining going into maintenance equipment for about a $7 million amount, and, of course, travel for associated operations making up the additional amounts.

If you will look across the spectrum of the next 5 years for O&M as a whole, what you're going to see is some moderate force structure increases; with end strengths going up accordingly.

One of the areas that we have paid particular attention to are the SEAL units. We are moving toward a 60-platoon force structure there. This was one of the topics that received a lot of attention this past summer.

I am told, and General Porter may want to elaborate, that the funding in 1989 is being executed well regarding the get well operations from the activities of last year. Deferred maintenance is now being brought up—we're going into necessary overhaul programs, and so forth.

We have been concerned now about several things in the 1989 program which we are currently executing. The plus-up that I've been referring to of the $286 million, we received a few surprises regarding the constraints that are put on its execution. Of particular concern is the constraint that has been put on the procurement amounts that are in that $286 million initiative. We have been advised that we must proceed as though the procurement money in that $286 million—$100 million of it for patrol boats, $108 million for SOF communications are to be treated as 1-year money. So we are moving as quickly as we can to make sure we have a sound execution program for those funds.

Just on March 1st, General Porter and I met in our first budget execution review for the year. We took the unusual step of starting earlier than usual because of two factors: One, the concern about the $286 million getting us off to a late start, but more so because of the significant 40 percent increase that we are seeing overall. Of course, there's a 35 percent increase making up that mix from the O&M dollars for readiness. So we wanted to get an early start.

The execution review went exceedingly well, given the circumstances that we have. We were not surprised to hear the services' concern again about the 1-year money for procurement and so forth. We will look the program over further and right now, the situation that we're seeing here at mid-year is there's going to be a significant amount of execution of those programs that has to occur in the last quarter of the year. That's always disturbing because any slips mean you're moving toward losing the money.

Mr. Chairman, let me mention an item of old business raised on September 28 by the Assistant Secretary, Ambassador Whitehouse. It has to do with a reprogramming action to realign dollars to fulfill the MH-47E program as it has been fully authorized and appropriated. I'll come back to the point; I've completely lost it.

[See page 1115, where Mr. Russ picks up on this subject.]

The clarifications that we needed on spending the money are all there. We do not have any concern at this point about the intent of Congress toward spending the money that we have. As Mr. Kasich raised at that meeting, he was concerned that we were back in September still looking at options. We did look at options. Most of them were very technical—they have to do with things that are essential for sound program and financial control. For instance, you will find the approach that was selected is one where there are essentially no new checking accounts to execute the intent of Congress. The money may not go to anyone else except the Command initially. Full authority for budget execution, accordingly, is extended to the USSOCOM as dollars are appropriated and authorized moving from OSD Comptroller down to USSOCOM. In this sense, they will be sharing existing checking accounts that are now used by Defense agencies. They are not a Defense agency but they act from a resourcing standpoint as though they are one. This is a very key part of making sure in my mind that we maintain a solid financial control—program control—of the program.

The next aspect of that will, of course, be how well we will be able to execute that program. This is something the Department has never done before. We do not need new legislation at this point. We have our hands full making sure we are in full compliance, both legally and administratively, with the legislation that has been given to us.

Now, from an OSD standpoint, I'd like to believe that I'm ready to go. We have a small staff to perform the oversight role. It is composed of myself as the Deputy Assistant Secretary, and I have two Directors. I have my Budget Director, Colonel Morgan, who is with me today, and well experienced in this business. He has been at Fort Carson as a budget officer. He has been to the Industrial College. He has an accounting degree, and he is very thorough and meticulous with the budget that we have.

I hope your staff has found that as they look through the justification documents. I believe you should all have our 1-inch thick, consolidated justification book. People allege we manage by the pound, and I guess we do in this case.

In our other directorate is the Director who will be in charge of oversight regarding the program proposal formulations which under the legislation will be submitted in the one and only POM for MFP-11 that General Lindsay will submit.

Of course, activities start on that always sooner than you would like and the Command faces getting ready for that now and moving ever more briskly into that as they move into the year ultimately leading to a submission next spring.

I have a gentleman who is outstanding in program work. His name is Ray Dominguez. I claim I stole him from another element of OSD. He has brought on a very good staff. Between Colonel Morgan's staff, as the Budget Director, and the Program Director, we have hired all of our people. Now, this is a very small staff. It's composed of only 12 people; 9 of those are professional, 6 of those being civilians, 3 being military. So you see, we have a very high mix of civilians due to the nature of our work which is very repetitive and highly technical. All of our people who I have now I am very pleased with. I think they will perform the oversight role that is expected of your committee and other committees who have led the legislation that we have.

With those comments, I can either take questions now or defer them until General Porter has had an opportunity to comment.

PREPARED STATEMENT OF JOHN M. RUSS

Mr. Chairman and Distinguished Members:

INTRODUCTION

I am pleased to appear before you today with Major General Porter to discuss the Special Operations Forces (SOF) portion of the President's Budget Request for FY1990 and FY1991. I would also like to discuss the development and execution of this and future budgets.

SOF BUDGET TRENDS

Before presenting an overview of the readiness segment of the SOF budget, let me take a few moments to place MFP-11 in context with the entire DoD budget.

Last year Congress essentially approved the $2.8 billion FY 1989 budget requested by President Reagan. Following close examination of the budget proposal, Congress supported us in stepping up to the SOF modernization initiatives and ongoing operational needs. In addition, approximately $425 million of MFP-11 funding was added by Congress and the Department, bringing the FY 1989 total program to $3.2 billion. Specifically, Congress added nearly $300 million for new initiatives to correct SOF readiness and modernization issues. Another $125 million was added by the Department from the non-SOF portion of the budget to finance a restructuring of the Combat Talon II (MC-130H) program.

On comparing the FY 1989 program to the FY 1988 program you will note, on Table 1, that the total MFP-11 program increased over 40 percent. This was driven in large part by the expanded procurement program required to expedite the long awaited modernization of SOF airlift. The FY 1990 program now before Congress for consideration continues funding at the FY 1989 approved level as efforts continue to finance airlift force enhancements. Clearly FY 1989 and FY 1990 are "watershed" years for MFP-11 programs.

Table 1.
MAJOR FORCE PROGRAM ELEVEN

	FY88	FY89	FY90	FY91
Billions of Dollars	2.2	3.2	3.2	2.7
Annual Real % Change	-	+43.0	-3.0	-18.0
% of DoD Budget	0.78	1.10	1.05	0.84

With all gunships and Talons budgeted by FY 1990 the FY 1991 total program declines. Even with the FY 1991 funding level of $2.7 billion, the procurement of rotary-wing aircraft and the development of the CV-22 SOF variant tilt rotor system continues. There are also moderate increases in readiness and other operational programs. Currently, we project the decrease in MFP-11 to continue into the mid-1990's. During the FYDP period we have programmed for the remainder of our ongoing aircraft programs and the research and development efforts needed to support validated SOF requirements.

Overall FY 1990 and FY 1991 real program change percentages are negative when compared to the current FY 1989 program; minus three percent in FY 1990, and minus 18 percent in FY 1991. Even during the peak modernization years, the total MFP-11 funding represents only about one percent of the DOD total budget.

READINESS PORTION OF THE BUDGET

As we know, the investment accounts and their aircraft programs are required to meet current and future threats. However, it is our operations and maintenance dollars that buy what we need to give us near term readiness. As Table 2 illustrates, our operations and maintenance program increased from $397 million to $536 million from FY 1988 to FY 1989. This is a 35% increase in operations funding. Our growth rate then moderates for FY 1990 and FY 1991 to $549 million and $586

Table 2
DOD SUMMARY
(TY$M)

	FY88	FY89	FY90	FY91
MILPERS	634.8	826.2	900.2	968.6
O & M	397.2	536.3	548.5	586.1
PROC	842.0	1407.8	1438.1	819.8
RDT & E	263.1	338.4	221.7	268.5
MILCON	96.4	94.6	95.2	45.8
TOTAL	2233.5	3208.3	3203.7	2688.8

million, respectively. There are two major reasons for the increases. First, FY 1988 to FY 1989, Persian Gulf operations revealed that additional resources were needed to maintain SOF equipment used in the theater. It also became apparent that additional funds were going to be needed for SEAL training activities in FY 1989 and in the out years to support the approved growth in SEAL force structure. Our planned budget now fully funds these increases in operational costs. The other major causes for an increase in readiness funding relate to the operational aspects of Air Force SOF aircraft. This increase is evidenced by a near doubling of the O&M funding level from FY 1988 to FY 1989 to support force structure changes. Table 3 illustrates these changes by Service.

Table 3.
O&M FUNDING (TY$M)

	FY88	FY89	FY90	FY91
ARMY	215.9	224.0	242.6	258.2
NAVY	73.2	107.2	99.5	99.8
AIR FORCE	108.1	205.1	206.4	220.1
TOTAL	397.2	536.3	548.5	586.1

RESOURCE MANAGEMENT

I believe our basic approach to resourcing MFP-11 is sound. First, we are ensuring that the budgets already approved are executed properly with realignments made as needed. The significant increase in the number of complex, near-term programs from FY1988 to FY1989 presented major budget execution challenges. We are on top of the challenge and have guarded optimism that procedures are in place to ensure sound budget execution. Major General Porter and I have already completed our first extensive FY 1989 budget execution review with the services. This early start should pay dividends as we proceed through the year. Areas of concern that require special attention were identified to ensure MFP-11 has full and active budget execution oversight.

The last year has been an active one regarding our participation in the program and budget formulation for FY 1990 and FY 1991. I arrived in my current position in February 1988 just as OSD began its internal review of the program proposals submitted by the Services in their Program Objective Memoranda (POMs). Our review of the Service program proposals surfaced several issues. Accordingly, issue papers were developed and presented for consideration by the Defense Resources Board. By late summer, favorable decisions were rendered that resulted in significant increases to the MFP-11 share of the Department's five year program. In some cases we were directed to conduct additional analyses to justify our preferred position. These analyses were done and favorable decisions were made. The revised programs resulting from these decisions are contained in the SOF portion of the President's Budget Request for FY 1990 and FY 1991. In my personal view, we had full participation in formulation of the budget before you.

FUTURE RESOURCING

Concurrent with the budgeting and programming activities just mentioned, planning is underway for the next resource cycle when USSOCOM will develop its own POM for MFP-11 programs. The programs that result from this effort will be contained in the President's Budget Request for FY 1992 and FY 1993. That budget will be submitted two years from now. To get ready for this revised resourcing approach, our program office is working with their counterparts in OSD and Major General Porter's office to put in place the operational relationships that will be necessary to ensure USSOCOM develops a sound POM and we are positioned to adequately review it and fulfill our oversight responsibilities.

None of the work we have accomplished to date or plan for the future can be completed without good, experienced personnel. Our program directorate will soon be at full strength and are actively working on POM development and review procedures. Mr. Ray Dominguez is the Programs Director. He joined us last fall following 13 years experience in the OSD Comptroller's office. We have come a long way over the last year on the budget side of our resourcing shop. I am pleased to report that our budget directorate is 100 percent manned. Colonel Tim Morgan, who is with me today, is our Budget Director and he directs an experienced and a well trained staff. He too is well experienced in the business. The consolidated justification book now with your committee was prepared by his office. As you can see the Budget Directorate is up and running, working with their counterparts in OSD, the Services, and Major General Porter's office to execute approved budgets, justify the contents of the budget before you and establish relationships for when the Command will begin executing MFP-11 programs a year and a half from now.

I would be pleased to address any questions you have, now, or after General Porter's opening remarks.

Mr. Hutto. Thank you, Mr. Russ.

We will go to General Porter. We welcome you, General Porter, and you may give your statement at this time and then we will ask questions of both of you.

STATEMENT OF MAJ. GEN. WILLIAM J. PORTER, UNITED STATES AIR FORCE, DIRECTOR OF RESOURCES, J-8, SPECIAL OPERATIONS COMMAND, DEPARTMENT OF DEFENSE

General Porter. Thank you very much, sir.

Mr. Chairman, distinguished members of the committee:

It is a pleasure to be here before you this morning. I, too, have a prepared statement that I'd request that you enter into the record.

Mr. Hutto. It will be done, without objection.

General Porter. Thank you very much.

Sir, my background in Air Force recruiting and training indicates that I have a great interest on the people side of the house, so I'd like to address this from that standpoint just to begin comments this morning.

I have learned, with the years that I spent in that training and recruiting process, to recognize quality when I see it. That has been one of the very enlightening experiences for me over the last 18 months in the Special Operations business.

I know many of you have traveled out to our units and you know those very talented, capable people as well as I do.

But just for a minute if I can digress, starting with our SEALs—probably the most physically demanding course that I have ever seen. It takes a very special kind of individual to complete that program.

There's a saying in the Navy that there are no old SEALs. Well, I know a few but it is a very difficult, demanding program, and we are proud of those folks out there. It speaks to some extent to the high attrition rate that they have in that program.

On the Army side, the Special Forces capability that we have—a very highly selected program, again with a reasonably high attrition rate, but all volunteers, specially talented, multi-talented people, that's what I see—can do many things. In addition to the language capabilities, they have talents across the spectrum that apply in many, many cases. They have a great utility for our Nation, I believe.

For the air crews, the Special Operations business for the Air Force—I'm really impressed with them. I've been a crew dog, but that was a long time ago. These people are much more capable than my peers were when I was doing that line of work. I am really impressed with what they do.

But to address some of your questions about O&M, I think one of the things that I would request that you consider this morning in the O&M funding arena is that it takes a lot of training to maintain this kind of capability. It takes a lot of activities. These folks are on the move all the time trying to maintain their skills, trying to maintain the capabilities that we count on them for.

As Mr. Russ indicated, we did have some concerns from the Navy SEAL funding standpoint. He has addressed that quite adequately. Suffice it to say, that that situation has largely been resolved, with a plus-up in 1989 and with the President's budget in years 1990 and 1991, we are satisfied that the SEALs will be adequately funded to do what we ask them to do.

We also had some considerations that we addressed within the Department for Army Reserve funding in the O&M arena. We got those concerns resolved early on, and so those are no longer a concern. But it's one of those things that we watch very carefully because of the impact on the capability of the forces that underfunding would generate.

So we ask the committee's consideration and understanding that the training tempo in Special Ops is somewhat different, I think, than perhaps the other functions that you may address; and to have these specially talented people ready to do what we ask them to do requires that kind of funding.

It seems to me that in addition to fielding Special Operations and supporting the war plans, that the systems that we work with, support, and validate, we must support the people. They must do the things that we need to have done—if it's an aircraft that needs to be survivable and it's a process of doing the mission, it seems to me that's one of the key aspects of this POM and budget authority that we have dialog so much about over the last 18 months.

It seems to me that that gives General Lindsay—the CINC, the guy who really knows the programs, the guy that knows the requirements—the capability to validate and prioritize the requirements that the force needs and then articulate and support that through the whole budget process, both within the Department and here on the Hill.

So, sir, with those comments, and mindful of our great people, I am delighted to be here and would be happy to answer your questions.

PREPARED STATEMENT OF MAJ. GEN. WILLIAM J. PORTER

INTRODUCTION

IT IS A PLEASURE TO HAVE THE OPPORTUNITY TO APPEAR BEFORE YOU TO ADDRESS THE CURRENT ISSUES FACING SPECIAL OPERATIONS FORCES. THE PURPOSE TODAY IS TO DISCUSS OUR MAJOR FUNDING ISSUES AND CHALLENGES FOR THE NEAR FUTURE.

PROGRAM OBJECTIVE MEMORANDUM AND BUDGET AUTHORITY

ON JANUARY 24, 1989, THE ACTING SECRETARY OF DEFENSE APPROVED A PLAN GIVING PROGRAM AND BUDGET RESPONSIBILITIES FOR SPECIAL OPERATIONS FORCES (MAJOR FORCE PROGRAM-11) TO THE COMMANDER-IN-CHIEF, SPECIAL OPERATIONS COMMAND. USCINCSOC WILL EXERCISE THESE RESPONSIBILITIES FULLY IN CONNECTION WITH THE FY 92-97 PLANNING, PROGRAMMING AND BUDGETING CYCLE. USCINCSOC WILL ASSUME BUDGET EXECUTION RESPONSIBILITIES FOR SELECTED MAJOR FORCE PROGRAM 11 PROGRAMS ON OCTOBER 1, 1990, AND FOR ALL MFP-11 PROGRAMS ON OCTOBER 1, 1991.

THE INITIAL CROSSWALK OF SOF RESOURCES TO MAJOR FORCE PROGRAM 11 WAS COMPLETED IN JUNE 1987. IN THE ENSUING MONTHS, OASD (SO/LIC) AND USSOCOM IDENTIFIED DIFFERENCES IN THE WAY EACH SERVICE EXECUTED THE CROSSWALK. IT IS CRITICAL TO IDENTIFY THE FULL EXTENT OF THESE INCONSISTENCIES IN MAJOR FORCE PROGRAM 11 SO THEY CAN BE CORRECTED BEFORE CINCSOC BEGINS EXERCISING PROGRAM OBJECTIVE MEMORANDUM AND BUDGET AUTHORITY. TO THAT END, THE LOGISTICS MANAGEMENT INSTITUTE WAS CONTRACTED TO ANALYZE AND VALIDATE THE CONTENTS OF MAJOR FORCE PROGRAM 11. THEIR EXPERTISE WILL HELP USSOCOM DEVELOP A PROPER DATA BASE FROM WHICH TO DEVELOP THE FY92-97 POM.

USSOCOM IS PROCEEDING TO INSTITUTE PROCEDURES, MECHANISMS AND STRUCTURE TO SUPPORT THE PROGRAM OBJECTIVE MEMORANDUM PREPARATION PROCESS. AS A PRECURSOR, USSOCOM IS PREPARING A COMPREHENSIVE PLAN WHICH FORMS THE BASIS FOR CINCSOC'S RECOMMENDED UPDATE TO THE DEFENSE GUIDANCE. AS THE FINAL STEP IN THE DEFENSE GUIDANCE PROCESS, THE COMMAND WILL DEVELOP RECOMMENDED SOF MID-TERM OBJECTIVES WHICH, WHEN APPROVED BY THE SECRETARY OF DEFENSE, WILL PROVIDE PROGRAMMING GUIDANCE FOR THE DEVELOPMENT OF THE USSOCOM PROGRAM OBJECTIVE MEMORANDUM. IN ADDITION, THE COMMANDERS OF OTHER UNIFIED AND SPECIFIED COMMANDS WILL SUBMIT INTEGRATED PRIORITY LISTS TO USSOCOM DETAILING THEIR HIGH PRIORITY SOF NEEDS. THESE WILL THEN BE ADDRESSED IN THE USSOCOM PROGRAM OBJECTIVE MEMORANDUM DEVELOPMENT PROCESS. USCINCSOC ALSO INTENDS TO PREPARE AN INTEGRATED PRIORITY LIST FOR SUBMISSION THAT REFLECTS SOF RELATED PROGRAMS THAT ARE NOT PART OF MAJOR FORCE PROGRAM-11.

THE DETAILED INFORMATION ON MAJOR FORCE PROGRAM 11 IN THE INDIVIDUAL SERVICE DATA BASES WILL BE USED TO ESTABLISH USSOCOM'S OWN MAJOR FORCE PROGRAM 11 DATA BASE. THE MANAGEMENT OF THIS DATA BASE, HOWEVER, IS ONLY A PIECE OF A LARGER

MANAGEMENT INFORMATION SYSTEM THAT WILL ASSIST THE COMMAND IN MAKING THE DIFFICULT RESOURCE-RELATED DECISIONS NECESSARY IN THE PRESENT TIGHT FISCAL ENVIRONMENT. THE DIRECTORATE OF RESOURCES IS CURRENTLY DEVELOPING THE MANAGEMENT SYSTEM UTILIZING, AS MUCH AS POSSIBLE, THE EXISTING MECHANISMS. THE TOTAL PROGRAM WILL PROVIDE FOR THE PROPER BALANCE AMONG READINESS, MODERNIZATION, SUSTAINABILITY, AND FORCE STRUCTURE FOR SOF. ONCE THE PROGRAM OBJECTIVE MEMORANDUM IS SUBMITTED TO OSD, THE COMMAND WILL DEFEND ITS INTERESTS THROUGH COORDINATION WITH AND THE PARTICIPATION OF ASD (SO/LIC) ON THE ISSUE TEAMS FOR RELEVANT ISSUES. WITH THE ADVICE AND ASSISTANCE OF USCINCSOC, ASD (SO/LIC) WILL DEFEND MFP 11 PROGRAMS DURING THE DEFENSE RESOURCES BOARD PROCESS. USSOCOM WILL NEED ABOUT ANOTHER 50 PERSONNEL TO PERFORM THE MFP 11 POM/BUDGET FUNCTIONS.

HEAD OF AGENCY AUTHORITY

HEAD OF AGENCY AUTHORITY REFERS TO THE MAJOR FORCE PROGRAM 11 CONTRACTING AUTHORITY FOR RELATED ACQUISITIONS. MUCH HAS BEEN DONE TO DATE TO DEVELOP TOTAL ACQUISITION AUTHORITY AND THE DEVELOPMENT OF A SYSTEM TO MANAGE SOF PECULIAR ACQUISITION. THIS PAST YEAR, THE USSOCOM ACQUISITION STRATEGY GROUP DEFINED THE COMMAND'S ACQUISITION STRATEGY AND OUTLINED A PLAN FOR IMPLEMENTATION. THE GROUP IS NOW DEVELOPING THE ORGANIZATIONAL STRUCTURE, INTERNAL MANAGEMENT PROCEDURES, AND AUTOMATION

REQUIREMENTS TO ACCOMPLISH THIS TASK. THE EXECUTION OF THE SPECIAL OPERATIONS-PECULIAR BUDGET, FOR THE MOST PART, WILL BE THROUGH APPROPRIATE DEVELOPMENT OF MEMORANDA OF AGREEMENT WITH THE SERVICES AND GOVERNMENT AGENCIES. USSOCOM PLANS TO EXECUTE THE MAJOR RESEARCH AND DEVELOPMENT EFFORTS AND MAJOR PROGRAM PROCUREMENTS THROUGH THE EXISTING SERVICE-ACQUISITION SYSTEMS. USSOCOM WILL NOT DUPLICATE WHAT IS ALREADY IN THE SERVICES. WHAT IS IMPORTANT IS THAT USSOCOM WILL DEVELOP AN IN-HOUSE CAPABILITY TO KEEP SOF ON THE LEADING EDGE OF TECHNOLOGY AND TO QUICKLY MEET OUR CONTINGENCY NEEDS. AS STATED EARLIER, WE ARE ACTIVELY WORKING WITH THE SERVICES ON JOINT INTEROPERABILITY ISSUES AND HAVE BEGUN THE FORMAL AGREEMENT PROCESS WITH THE DEFENSE ADVANCED RESEARCH PROJECT AGENCY AND SOME OF THE NATIONAL LABORATORIES. WE HAVE ALSO VISITED THE MARINE CORPS RESEARCH, DEVELOPMENT, AND ACQUISITION COMMAND TO STUDY THEIR STRUCTURE AND PROCEDURES BECAUSE OF THE CLOSE FIT TO OUR SITUATION. LOGISTICS MANAGEMENT INSTITUTE HAS ASSISTED USSOCOM ON HOW TO ESTABLISH THE ACQUISITION RESOURCE INTERFACES WE WILL NEED WITH OSD, THE SERVICES, AND OUR COMPONENTS. OVER THE NEXT TWELVE MONTHS, THE USSOCOM STAFF WILL DEVELOP THE REQUIRED MEMORANDA OF AGREEMENT WITH THE SERVICE AND AGENCY HEADS, AND COMPLETE THE USSOCOM ORGANIZATIONAL STRUCTURE AND INTERNAL PROCEDURES, TO INCLUDE THE IDENTIFICATION OF ADDITIONAL SKILLS AND MANPOWER REQUIREMENTS. AS WE MEET THE INTENT OF CONGRESS, WE WILL ENSURE THIS STRATEGY IS COORDINATED WITH THE UNDER SECRETARY OF DEFENSE FOR ACQUISITION; THE ASD FOR PROGRAMS

ANALYSIS AND EVALUATION; THE OSD GENERAL COUNSEL, AND THE CHAIRMAN, JOINT CHIEFS OF STAFF. THE KEY TO SOF REVITALIZATION IS A CONTINUED HIGH PRIORITY IN THE RESOURCE ALLOCATION PROCESS. WE ARE PLEASED WITH THE SUPPORT WE ARE CURRENTLY RECEIVING FROM CONGRESS AND THE SERVICES. AT THIS TIME I WILL ADDRESS A FEW OF THE KEY USSOCOM ACQUISITION PROGRAMS.

MC-130H

THE MC-130H PROGRAM REPRESENTS MAJOR AVIONICS UPGRADE INCLUDING HIGH ACCURACY INERTIAL NAVIGATION UNITS, A NEW TERRAIN FOLLOWING/TERRAIN AVOIDANCE RADAR, MISSION COMPUTERS, A FORWARD LOOKING INFRARED RADAR SYSTEM, AND ELECTRONIC COUNTERMEASURES CAPABILITY. THE CREW SIZE OF THE TALON IS GOING TO BE REDUCED FROM NINE ON THE TALON I TO SEVEN ON THE TALON II. PROGRAM RESTRUCTURING HAS CHANGED THE FUNDING PROFILE, AND THE AIR FORCE WILL BE REQUESTING REPROGRAMMIMG APPROVAL FOR $125 MILLION IN FY89 DOLLARS. THIS ACTION IS EXPECTED TO BE COMPLETED BY FY 89. OUR FY 90 REQUEST WILL COMPLETE THE BUY OF 24 AIRCRAFT UNDER A RESTRUCTURED PROGRAM. ALSO, THE RESTRUCTURED PROGRAM PROVIDES PREPLANNED PRODUCT IMPROVEMENTS FOR NAVIGATION, COMMUNICATIONS AND INTEGRATED ELECTRONIC WARFARE. THE COMBAT TALON II REPRESENTS THE HEART OF SOF FIXED-WING INFILTRATION/ EXFILTRATION CAPABILITY. TO COMPLEMENT THIS CAPABILITY, HOWEVER, THE ONGOING UPGRADE OF THE AGED TALON I REMAINS AN IMPORTANT PRIORITY FOR USSOCOM.

AC-130U

AS WITH THE COMBAT TALON, THE AC-130U GUNSHIP IS A SORELY NEEDED ADDITION TO SOF AIR SUPPORT. THE AC-130U WILL PROVIDE ADVERSE WEATHER, SURGICAL FIREPOWER SUPPORT FOR SOF AND CONVENTIONAL FORCES. IT ALSO PROVIDES IMPROVED RELIABILITY, MAINTAINABILITY, SURVIVABILITY, AND LETHALITY OVER THE CURRENT AIRCRAFT. THE CURRENT ACTIVE AC-130H WILL MOVE TO THE RESERVES WHEN REPLACED BY THE NEW U-MODEL. THE AC-130U PROGRAM CALLS FOR 12 AIRCRAFT AND WE ARE MONITORING IT CLOSELY. THE NEED FOR FIRE CONTROL RADAR, COMPUTER AND SOFTWARE INTEGRATION ARE DEMANDING AND SUBJECT THE PROGRAM TO RISK. THE AIR FORCE IS RESPONSIBLE FOR PROGRAM MANAGEMENT. WE ARE REQUESTING FY 90 FUNDS TO TAKE ADVANTAGE OF THE EXISTING FIXED PRICE OPTIONS ON THE CURRENT CONTRACT AND ACQUIRE THE LAST FIVE OF THESE AIRCRAFT.

CV-22A

THE CONTINUED DEVELOPMENT OF A SOF VARIANT OF THE V-22 OSPREY WITH LONG RANGE, HIGH SPEED, AND VERTICAL TAKEOFF AND LANDING CAPABILITIES, IS ONE OF OUR HIGHEST PRIORITIES. MANY SOF INFILTRATION/EXFILTRATION MISSIONS WILL REQUIRE THE UNIQUE COMBINATION OF FIXED AND ROTARY WING CAPABILITIES THAT ONLY THE CV-22A CAN PROVIDE. OUR PRIMARY CONCERN WITH THE PROGRAM IS THE SCHEDULE. THE FIRST CV-22A DELIVERIES HAVE ALREADY BEEN SLIPPED

FROM FY 94 TO FY 95. FURTHER DELAYS WOULD SERIOUSLY IMPACT ON SOF CAPABILITY. OUR FY 90 REQUEST SUPPORTS CONTINUED DEVELOPMENT OF THE AIR FORCE UNIQUE SYSTEMS FOR THE CV CONFIGURATION, SUCH AS THE TERRAIN FOLLOWING RADAR, SPECIALIZED COMMUNICATIONS, AND DEFENSIVE ELECTRONIC COMBAT SYSTEM.

ROTARY WING PROGRAMS

ROTARY WING AIRCRAFT WILL CONTINUE TO PLAY A KEY ROLE IN MEETING SOF INFILTRATION/EXFILTRATION REQUIREMENTS. THE AIR FORCE MH-53J PROGRAM IS PROCEEDING ON SCHEDULE AND A NUMBER OF THESE VITALLY-NEEDED AIRCRAFT ARE ALREADY AT HURLBURT FIELD, FL; KIRTLAND AFB, NM; AND RAF WOODBRIDGE, U.K.. THE REMAINDER ARE IN MODIFICATION AND WILL BE COMPLETED IN THE NEAR FUTURE. OUR MH-60G AIRCRAFT ARE ALSO CURRENTLY BEING PROCURED AND WE ANTICIPATE THAT THESE AIRCRAFT WILL BE HIGHLY EFFECTIVE SPECIAL OPERATIONS ASSETS. THE ARMY'S MH-60K AND MH-47E PROGRAMS ARE WELL INTO THE DEVELOPMENT PHASE AND NEED STRONG CONGRESSIONAL SUPPORT TO MOVE FOWARD INTO THE PRODUCTION PHASE. THESE PROGRAMS WILL GIVE US AN IMPROVED CAPABILITY FOR SHORT TO MID-RANGE SOF MISSIONS. THIS FY 90 FUNDING WILL START THE MH-60K PRODUCTION AND COMPLETE THE FIRST PHASE OF OUR MH-47E PROCUREMENT, ALLOWING US TO FULLY EQUIP OUR FT. CAMPBELL UNIT WITH ADVERSE WEATHER CAPABLE MEDIUM LIFT HELICOPTERS.

SOLL-II UPGRADE

THE SOLL-II MISSION AVIONICS UPGRADE, WHICH WILL PROVIDE IMPROVED CAPABILITY TO OPERATE AT LOW LEVEL AND IMPROVED SURVIVABILITY FOR THE 11 C130-Es AND THE 13 C-141Bs, HAS BEEN RESTRUCTURED TO SUPPORT FUNDING ONLY THROUGH THIS YEAR. THE REMAINDER OF THE SOLL II MODIFICATIONS ARE UNFUNDED.

SEAL TACTICAL INSERTION CRAFT

CURRENT SURFACE SEAL DELIVERY SYSTEMS CAN BE USED FOR THE INFILTRATION MISSION ONLY UNDER VERY LOW THREAT CIRCUMSTANCES. CONSEQUENTLY, THERE IS A NEED FOR A SEAL SUPPORT CRAFT THAT IS FAST, HAS GOOD RANGE AND SEA-KEEPING CHARACTERISTICS, AND INCORPORATES TECHNOLOGY TO PERMIT IT TO ACCOMPLISH THE SEAL INFILTRATION/EXFILTRATION MISSION UNDER ALL CONDITIONS. THE SYSTEM THAT WILL PROVIDE THIS CAPABILILTY IS THE SEAL TACTICAL INSERTION CRAFT. IT IS PLANNED THAT IT WILL BECOME THE ONLY SURFACE PLATFORM CAPABLE OF EFFECTIVELY DELIVERING SEALS TO NEARSHORE TARGETS UNDER ALL THREAT CONDITIONS AND THEN RETRIEVING THEM.

ADVANCED SEAL DELIVERY SYSTEM

THE SECOND ESSENTIAL SEAL DELIVERY SYSTEM IS THE ADVANCED SEAL DELIVERY SYSTEM. THIS SYSTEM WILL PROVIDE A SUBSURFACE DELIVERY

SYSTEM FOR 8-10 SEALS AND OVERCOME THE NUMEROUS OPERATIONAL LIMITATIONS IMPOSED BY THE CURRENT VEHICLES. FURTHERMORE, THE ADVANCED SYSTEMS WOULD PROVIDE A SUBSURFACE INFILTRATION/EXFILTRATION CAPABILITY FOR CONTINGENCY OPERATIONS WHERE CONDITIONS PRECLUDE THE USE OF EXISTING SEAL DELIVERY VEHICLES. THE ADVANCED SYSTEM HAS BEEN IDENTIFIED BY THE NAVY AS A NON-DEVELOPMENTAL ITEM CANDIDATE. CONSEQUENTLY, THE FY90-91 PRESIDENT'S BUDGET CONTAINS RDT&E FUNDS TO SUPPORT THE DEVELOPMENT OF HARDWARE.

HEADQUARTERS FACILITIES

HEADQUARTERS BUILDING

THE HEADQUARTERS FACILITY IS NOW SOLELY OCCUPIED BY USSOCOM. THE PART OF USREDCOM THAT WAS TRANSFERRED TO USTRANSCOM VACATED OUR BUILDING LAST FALL.

COMPUTERS

WE HAVE UPGRADED OUR OFFICE COMPUTERS TO INCLUDE A CLASSIFIED COMMUNICATION CAPABLE COMMAND LOCAL AREA NETWORK.

COMMAND CENTER

THE COMMAND CENTER HAS BEEN UPGRADED AND MODERNIZED. AS A MATTER OF FACT, THE NEW COMMAND CENTER WAS OCCUPIED ONLY LAST MONTH. IT HAS STATE-OF-THE-ART FACILITIES AND COMMUNICATIONS.

COMMUNICATIONS

FIVE MAJOR PROJECTS HAVE BEEN UNDERTAKEN TO ENHANCE THE COMMUNICATIONS POSTURE OF HQ USSOCOM:

- INTERIM COMMAND, CONTROL, AND COMMUNICATIONS FOR USSOCOM. THIS IS A DIAL-UP SECURE VOICE, FACSIMILE, AND DATA CAPABILITY CONNECTING HQ USSOCOM, THE WASHINGTON OFFICE, AND MAJOR SOF UNITS. THIS SYSTEM WAS OBTAINED AT NO COST TO THIS COMMAND, UTILIZING COMMERCIAL EQUIPMENT EXCESS TO US ARMY REQUIREMENTS.

- DATA BROADCAST SYSTEM/PROJECT SCAMPI. THIS IS A NETWORK OF LEASED FIBER OPTIC CIRCUITS THAT TIES TOGETHER PRINCIPAL PLAYERS IN THE SOF COMMUNITY AND NATIONAL AGENCIES IN CONUS. IT PROVIDES SECURE VOICE FOR BOTH SPECIAL INTELLIGENCE AND TOP SECRET, AND THE TRANSMISSION MEDIA FOR AUTOMATED INTELLIGENCE AND OPERATIONS SYSTEMS.

- RED SWITCH. THIS IS A FULLY SECURE SYSTEM THAT PROVIDES STATE-OF-THE-ART CONSOLES FOR THE USSOCOM COMMAND CENTER AND COMMAND SWITCHBOARD, AS WELL AS SECURE COMMUNICATIONS AMONG PERSONNEL WITHIN HQ USSOCOM, SELECTED USSOCOM COMPONENTS, AND OTHER UNIFIED AND SPECIFIED COMMANDS.

- USSOCOM GARRISON ADMINISTRATIVE TELEPHONE UPGRADE. THIS IS A REPLACEMENT OF A LEASED, 30 YEAR OLD KEY TELEPHONE SYSTEM WITH GOVERNMENT OWNED CABLE, STU-III, OR STATE-OF-THE-ART SINGLE LINE MEMORY PHONES. IT WILL PROVIDE SECURE AND NON-SECURE ADMINISTRATIVE TELEPHONE SERVICE WITHIN THE USSOCOM BUILDINGS AND WORLDWIDE. ELIMINATION OF THE LEASED SYSTEM WILL RESULT IN A SAVING OF SEVERAL HUNDRED THOUSAND DOLLARS PER YEAR.

- WASHINGTON OFFICE COMMUNICATION UPGRADE. THIS OFFICE'S ACTIVATION NECESSITATED THE INSTALLATION OF A COMMUNICATION SUPPORT PACKAGE, TO INCLUDE SECURE VOICE, DATA, AND FACSIMILE, AND AN UPDATING OF THE ADMINISTRATIVE TELEPHONE SYSTEM.

SUMMARY

IN SUMMARY, WE HAVE MADE CONSIDERABLE PROGRESS IN THE LAST YEAR. WE HAVE A SUPERB GROUP OF HIGHLY-QUALIFIED AND CAPABLE PERSONNEL, AND THEY ARE RECEIVING BETTER TRAINING WITH AN EMPHASIS ON JOINTNESS AND INTEROPERABILITY. OUR INTERFACES WITH THE REGIONAL CINCs CONTINUE TO IMPROVE. WE'VE MADE PROGRESS, SUCH AS IN JOINT COMMUNICATIONS INTEROPERABILITY, AND WE WILL CONTINUE TO IMPROVE AS TIME PROGRESSES. WE ARE JUST BEGINNING TO DEVELOP ALL THE PROCEDURES AND MECHANISMS, JOINTLY WITH THE SERVICES, TO FULFILL OUR POM AND BUDGET MISSIONS. THE FY 90-91

PRESIDENT'S BUDGET SUPPORTS THE REVITALIZATION OF SOF CAPABILITIES. WE HAVE SEVERAL MAJOR BUDGET AND FUNDING ISSUES CONCERNING THE REVITALIZATION OF SOF CAPABILITIES BEFORE THIS COMMITTEE. YOUR SUPPORT OF THESE ISSUES IS CRUCIAL TO OUR CONTINUED PROGRESS.

Mr. Hutto. Thank you very much, General Porter, and also Mr. Russ. We appreciate what you both have done in working with us on Special Operations.

General Porter, what is the status of the current O&M budgets for the Special Operations Forces? Do they have the funds available to operate and train at levels acceptable to the Commander of the Special Operations Command?

General Porter. The CINC and I have gone over this extensively. This is one of the things that we pay great attention to. We have had some concerns. Those concerns were addressed through the process within the Department, so we are satisfied that with your support we can do what we have to do with the funds in the President's budget.

Mr. Hutto. I'm now asking you about exercising the Special Operations Forces. Are you having to cut down on the exercises that you do? What does it look like for fiscal 1990 in the way of doing exercises with our Special Operations Forces?

General Porter. Sir, as you are well aware, the exercise tempo in Special Ops is pretty solid and pretty strong. We just completed the Jaguar Bite exercise that was extremely successful. The unique part of that exercise was the First Special Operations Wing getting an operational readiness inspection as a part of that exercise. So that was real timely. I can tell you that they got high marks. They got an excellent, and one of their squadrons got an outstanding—I won't say that is unheard of, but it is very, very unusual.

Again, we exercise all the time. We are taking a look at the exercise program within the Headquarters to better fold it in with the existing exercises. We don't want to establish new exercises. What we want to do is exercise Special Operations more fully within the existing exercise program.

But as far as funding goes, sir, that is not a current problem for us.

Mr. Russ. Let me add a point to that, sir.

Mr. Hutto. Yes, sir.

Mr. Russ. We, with your good help, got well quite a bit in 1989. Because if you look at the O&M budget, we moved from $397 million in 1988—that's some 35 percent up to $536 million. But we could go right back down that hill again if we're not careful. We have funded, with moderate increase—1990 and 1991—with about $549 million in 1990 and $585 million in 1991.

With these kinds of adjustments, and as our modernization is starting to get behind us from a funding standpoint, we need to stay ahead in terms of deliveries. You are going to see our program for O&M as a percent of our total base, growing from about 16 to 17 percent, up to 21 percent of the base. This is, of course, the kind of money you are referring to in your question.

Mr. Hutto. General Porter, there's no question in my mind that we have some of the best and some of the most courageous and committed people in Special Operations, and have had for some time. Of course, the idea of the Special Operations Command and our actions here in Congress over the last few years is to try to get this thing together, because we've had some pretty bad experiences with Desert I and other operations.

The Command is new, and I know that you're getting it together. How do you see it? Do you think that we can meld together the services—the Air Force, Army, Navy, Marines—all into a good Special Operations Force that can communicate, that can get the job done?

General PORTER. Sir, I see progress everyday. We're not there yet. I would be crazy to tell you that it's 100 percent today. But it's a whole lot better than it was 18 months ago when I arrived. So we have made progress. But it's one of those things that you just keep doing and keep doing, and progress comes slowly sometimes, but we're working together and we're exercising together.

Now we're looking at acquisition programs that meld together. We're looking at a laser marker that the Navy had developed and almost was ready to field. The Army needed that capability—a lightweight capability. So we're piggybacking on those kind of efforts and projects.

There are all kinds of savings to be made. The radios, the Joint Special Operations Advanced Radio System, called JASORS, is one of those programs that will just do more good work as we move down the road, and we're just going to keep working at it. But I see progress, and we're going to continue to make that progress.

Mr. HUTTO. Mr. Russ, in your statement you show a 35-percent increase in operations funding from fiscal year 1988 to 1989 due to the increased cost to operate in the Persian Gulf.

Now that things are apparently slowing down in the Gulf, do we still need to increase the budget for SOF activities there?

Mr. RUSS. Sir, we have no funds, at this point, earmarked for Gulf operations in 1990–1991 because of no direction to do so in terms of presence there.

We are, this year, in a declining state to about $2.5 million of O&M there. The key, though, and the part that the 1989 is so important to us for is the continuation in the outyears the get-well aspects of that operation. There was a considerable amount of lessons learned from that operation. We were using particularly platforms. We were using coastal patrol boats. If you talk to the commanders who were operating in that theatre they will tell you the boats were never designed to do that kind of operation. So we are now building or will soon be building those types of patrol boats needed for eventual circumstances in the future.

The equipment that we did use over there got beat up quite a bit. Now with the money that we've received, we are fixing those craft up.

In terms of the future, what you are going to see is the increased operational tempo that keeps the budget up—it's not a 1-year fix problem. We fix so many things in 1989 with some continuation in the outyears. You will see our force structure increases, our increase in operational tempo, and so forth, which will keep the O&M portion for the Navy component in the area of $100 million a year with the force structure increases for the same.

Mr. HUTTO. Thank you.

General PORTER. Sir, could I add just one thing to that?

Mr. HUTTO. Yes, sir, go right ahead, General.

General PORTER. I support everything that Mr. Russ said, and this is not a knock against the Navy, but when the SEALs were funded as a part of the fleets—and now I am talking about the establishment of the O&M baseline—they received additional year-end funding from the fleets that was hidden from the baseline. That's one of the reasons that we had to address the overall baseline for O&M for the SEALs. We successfully addressed that through the Department, so we're confident that the 1990-1991 numbers are reasonable and request your support for that.

Mr. HUTTO. Thank you.

Mr. Lancaster.

Mr. LANCASTER. Mr. Russ, due to congressional add-ons you had a big increase in your budget in fiscal years 1988 and 1989. But you point out that budgets for 1990 and 1991 are decreasing. In 1990 it appears that this decrease is primarily in research and development.

I know this isn't an R&D hearing, but I'm very concerned that in the past the services haven't strongly supported developing the type of equipment needed for Special Operations, and I don't want that trend to be continued.

Is that the reason that R&D is down? If it is down, are we going to be developing independently the kinds of equipment that we need for Special Ops?

Mr. RUSS. Actually, sir, what you'll see is the R&D not going down significantly. The whole modernization program in SOF is a fluctuating thing if you look at it both in the near term and in the outyears. What you'll see are waves of modernization. What that's due to is, first of all, we're talking about a very few programs and platforms.

The R&D programs—and I must say, some of them were added over considerable discussion during the internal debates in the Pentagon last summer as we looked at the POMs—program proposals of the services. Where we actually added money for the development of platforms. Those platforms, particularly those that are associated with Naval operations, for either surface or sub-surface use are not going to be coming into the procurement scheme until the development is done. So you will not see the procurement money in the programs for the Navy until sometime in the 1993-1994 time frame; and that's assuming that these very complex programs stay on their current schedules. We looked at that very closely.

What is causing the decline, though, if you look at the program, is the procurement portion of acquisition, and you'll see the downturn that we were mentioning earlier, in 1991, largely due to the fact that our fixed wing aircraft, in terms of the MC-130H program and the AC-130 gunships essentially get bought out by 1990. We hope we buy the last of our Talon IIs in the 1990 program, buying out the full certified requirement of 24. We buy the last five of our AC-130 gunships with the 1990 program.

Those gunships are very important to us because of the impact of what it does to the gunship needs of the Reserve forces. We're very interested in getting newer gunships into the Reserves.

Mr. LANCASTER. General Porter, you expressed your concern about the schedule problems on the V-22 and point out that further delays could seriously impact on POM capability. Since the first test flight continues to be postponed, it's not unrealistic to expect that there are going to be further delays. Also, there's always been a question of just how strong the Navy supports the V-22 program.

So, if you would, please discuss how this all relates to the problem that Mr. Russ was just talking about and the continued need for developing new platforms, new ways to operate in a SOF.

General PORTER. Sir, let me me try the CV-22 first and then move on to the other aspects of the R&D arena.

We're all concerned about the slip of the first flight of the V-22 program. We're told—and this is recurring, sir—we're told that's going to be very soon, and I'm keeping my fingers crossed. I think General Gray testified the other day that it was going to be very soon. We are working hard to make that happen.

It's a very technically challenging program. It is a very important program for us. The IOC today is the last quarter of 1995. It could conceivably slip some. This is a technically challenging program, as I said; a lot of programs have slipped.

So I guess I would say to you, we need to watch that like a hawk, be concerned about it. It is a very, very important program as far as SOF is concerned. We get the last airplane in 1998; so it is really an outyear program, but a very important program.

The last thing in the world I want to do is leave the impression that it's not really on the front burner of everything that we look at in the Command. It is right up front.

From an R&D standpoint and a broader perspective, I share some of your concern about that. There's some mitigation to that because there are some programs that we participate in, sir, that allow us to work some of our requirements in some special technology program for SOF. We're going to continue to do that.

The Command is also concerned with the role, now that it has the programming and budgeting process, that it ought to be kind of upfront in some of these kinds of dollars to get programs established.

One of the things that we've done is to establish a program called SOF 2000 that looks beyond the CV-22—what are the requirements and what should we be doing in that time frame? Major General Cox, our DCINC, is leading that effort. We have a test matrix organization in the Headquarters for this effort so that everybody's participating in that process. We are working with industry and looking at those kinds of things.

I think we ought to be looking at the outyears for the aircraft to follow the CV-22. So it's something that we need to be aware of, and I'm concerned about it. We do have participation. We've got some game plans to do the things we think we ought to be doing.

Mr. HUTTO. Mr. Machtley.

Mr. MACHTLEY. Thank you.

In your budget, have you allocated any Special Ops funds for involvement in a drug theatre? If not, if you were given additional missions in the war against drugs, could you handle it with the existing funding request?

Mr. RUSS. To my knowledge, we don't have any dollars budgeted directly to drugs. As you know, some of the forces of General Lindsey, from time to time, would be brought into certain aspects of this program. I think General Porter may be able to mention more about that.

But at this point, any adjustments that we are asked to make in the budget, whether they come from within the building or from Congress, given new missions will be made as an adjustment. But the policy direction and the requirements associated with that would have to be articulated and then we'd certainly put the financing behind the programs necessary for that.

Mr. MACHTLEY. As you indicated on page 3, there is going to be additional funding for SEAL training, and we're increasing the number of SEAL units; is that correct?

Mr. RUSS. Yes, sir.

Mr. MACHTLEY. Yet, I noticed at the bottom of the page under O&M the Navy funding is going to go from 107 down to 99.5. Is that inconsistent?

Mr. RUSS. Where are you, sir?

Mr. MACHTLEY. Page 3.

General PORTER. He's on 1990–1991.

Mr. MACHTLEY. Look at 1989, 1990, 1991, it indicates——

Mr. RUSS. Sir, you're looking at the 1989 program.

Some of that is non-force structure. A lot of it is the non-force structure increases. We see, basically, what's causing that is the $35 million increase that I was referring to earlier. The large amount of that was for consumables and depot type activities unassociated with force structure. So you will not see a correlation between end strengths and those dollars.

Once you remove the majority of that $35 million you can see what—let's say $20 million of it. Let me tell you exactly. If you would remove about $22 million out of that you'd see the 1989 program dropping into the $80–$85 million range, and then you start seeing correlation with end strength and force structure enhancements. But it's just that one-time, get-well shot of money in 1989 that's distorting that profile.

Mr. MACHTLEY. So the difference, then, between the 89 and the 99, the $10 million is basically for the additional SEALs?

Mr. RUSS. Out of the $107 million, sir, you see an 89?

Mr. MACHTLEY. Right.

Mr. RUSS. Thirty-five million of that was a one-time slug that you would not see year after year; it was getting well in large part from the Gulf operations.

Mr. MACHTLEY. Right.

Mr. RUSS. Service craft repair, for instance, was $11 million; higher rate of consumables, repair parts comes down. If you look at the detailing in 1990–1991, you will actually see decreases as we move some of those maintenance logistically-oriented functions forward into the 1989 program to be financed and the problem fixed.

I hope I answered your question.

Let me elaborate for the record on that, sir.

Mr. MACHTLEY. The question is really, where is that extra resource coming from for these additional SEALs? Is it from $72 million up to what you're projecting, $99.5 million?

Mr. RUSS. Let me get the breakout, sir. I have it with me.

[Brief pause.]

Mr. RUSS. I thought I had it with me.

Mr. HUTTO. You may provide it for the record if you don't have it.

Mr. RUSS. I'd like to, sir.

Mr. MACHTLEY. I'd appreciate that.

Mr. RUSS. But when we provide information you'll see how that correlates the force structure. You want the breakout of the force structure?

Mr. MACHTLEY. Force structure.

Mr. RUSS. Yes, sir.

[The following information was received for the record:]

As you will note on page 3 of my prepared testimony, Navy Operations and Maintenance (O&M) funding in fiscal year 1989 reflects $107.2 million which includes the $35.0 million added by Congress. Some of this funding was to support actual Persian Gulf Operations and associated repair and maintenance for SOF equipment which took a real beating. The remainder of the funds helped support force structure actions such as the activation of SEAL Team 8, Naval Special Warfare Unit 8, Special Boat Unit 26, and an increased training level for Naval SOF. Funding in fiscal year 1990 and fiscal year 1991 supports the increased OPTEMPO associated with the fiscal year 1989 force structure. In addition, it supports increase in Naval SOF manpower; which includes additional SEAL Platoons, SEAL Delivery Vehicle platoons and essential instructor, communications and maintenance personnel. The lower total O&M funding for fiscal year 1990 and fiscal year 1991 is a reflection of the reduction in one time costs associated with the Persian Gulf Operation.

Mr. MACHTLEY. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Bilbray.

Mr. BILBRAY. I'd like to get back onto the drug issue. You say you have no budget set aside for any of your commitment, any of your personnel into the drug enforcement area, working with DEA and other Government agencies.

Do they pay; do they supplement? In other words, if they borrow or you are loaned to them, or they are assigned, 200 people—I'm sure that's probably an exaggeration, probably more like 50—but if they are assigned to South America, to Bolivia and Peru, do they pick it up as part of their budget and reimburse you for any personnel that are used? Or do you have to assume it out of your own budget when you do assign them?

Mr. RUSS. I have not got into the—we're going to have to answer some of this for the record, the reimbursable nature of the question that you're asking. It is a technical question—I don't know. From the base budget standpoint, General Porter, you're closer, do you have that?

General PORTER. I have some information that I can help you with sir.

We have a normal training capability that we maintain. This training capability is to assist host nations to do specific kinds of training. We have a funded budget to do that. If that's related to training people from, let's say, the armed forces of a specific nation to do drug interdiction, then that's a part of our training process and our training budget. We could do that with the resources that we have.

If it was an add-on, then there might be some reimbursable nature to that. But rest assured, the Command is sensitive to that. Those activities are ongoing, as General Cox testified last week, in the training arena. We do some work with DEA to train some of their folks; and did some of that down in Panama. We will continue to do that on an as-needed basis.

Mr. **Bilbray**. I was on the International Task Force on Foreign Affairs before I came to Armed Services and, of course, they have repeatedly said that. Just give them an added punch. They can really do a job, and they do need you. They want more of your people assigned and be able to go into the field as advisers rather than to send DEA agents into the field who are not trained like your people are and cannot do the job. In other words, you train them and then they go out with DEA agents, and they feel there's a loss there.

So if there's an idea of what it would cost, maybe somewhere along the line we can get an estimate of working with DEA and your group what kind of additional moneys you would need to really emphasize your group's participation. Because they tell me that without your group they can't win the battle out there. With you, they have a good chance of doing it.

General **Porter**. Sir, that's a major policy issue and I'll defer that for the record.

[See question for the record number 3.]

Mr. **Bilbray**. Thank you.

General **Porter**. Yes, sir.

Mr. **Hutto**. Mr. Ray.

Mr. **Ray**. Thank you, Mr. Chairman.

Mr. Russ and General Porter, it's good to have you here this morning.

Mr. **Russ**. Thank you, sir, it's nice to be here.

Mr. **Ray**. Could you talk a little bit on our Special Operations Forces in Panama? Anything that you can talk about in open session that's not classified, dealing with the problems that we might have there, and what assignments that we may be involved in down there?

General **Porter**. Sir, without getting into any classified areas, we do have a battalion of Army Special Forces deployed down there. We have a Navy SEALs special boat unit in that arena. There are some very publicly stated Canal Zone responsibilities that they are looking after in the Zone. They also do some training in that arena and in Latin and Central America.

So those are the kinds of things they do, again, with the very specially talented people that have great applicability to Third World nations.

Mr. **Ray**. We are hearing, and not seeing a lot in the paper, but hearing that Americans and Service people and people who represent our country are being harassed to some degree.

Are you picking up on any of that that you can talk about?

General **Porter**. My observation would be, sir, probably no more so than in the past.

Mr. **Ray**. Rumor got out last week, I think, in the papers about our two school bus loads of American children being held for awhile.

General **Porter**. Yes, sir, I saw that.

I would say, since I've been in the Command the last 18 months—especially in Panama with all the activities that are going on down there—it has been a difficult situation for our forces down there—for all forces down there.

Mr. RAY. I certainly would hope that that we are on the way to finding some way to stabilize that situation.

General PORTER. Sir, I would too.

Mr. RAY. I apologize for being late; many of us have about 17 or 20 things on our agenda today, and it's kind of a difficult situation.

General, I don't think this has been addressed, but on page 5, I believe, of your testimony, and I'll just pick up mid-page and read from it:

"Program restructuring has changed the funding profile"—this is the MC-130H—"and the Air Force will be requesting reprogramming approval for $125 million in fiscal year 1989 dollars."

Can you comment on that?

General PORTER. Yes, sir, be happy to.

Sir, the Talon II, the MC-130H program, has been a very difficult program for a number of years. Many of you know the history better than I, but I've watched this thing very carefully for the last 20 months. It was originally intended to be an off-the-shelf acquisition, let's take what we've got and put it on the ramp. It turned out not to be that.

Mr. RAY. Right.

General PORTER. Just to tell you where we are right now, the program was closely looked at last summer by the Air Force; and I mean really a searching review by Mr. Welch, who is the Acquisition Executive for the Air Force, that really gave the Air Force Systems Command the task to make sure that we had a baseline for the program and that we could execute. That was his concern; and ours, too. We participated in that process with him.

We went through that review. The reprogramming is part of that review, i.e., the restructuring of the program. The basic problem is, sir—there are two things. The real driver is the radar, that is very challenging. If you will, the TFTA radar—terrain following and, terrain avoidance radars. We've had contractor problems. We've had integration problems.

However, I need to tell you that we flew that thing in December for about 9 hours. It wasn't perfect, but we've got it flying again, after making some software changes. The word that I had late last week was that it will look around the corner; it's doing some of the things that it's supposed to do. But we won't know really what we've got until we get through this flight test program. We are keeping our fingers crossed and watching it like a hawk.

Mr. RAY. So we have some question marks on the radar?

General PORTER. We do, sir. We've had a whole lot of question marks about the radar. We have fewer questions now than we had 6 months ago, to be very honest with you. It has come a long ways.

Mr. RAY. Is that the Emerson radar?

General PORTER. Yes, sir, it is.

Mr. RAY. I see.

General PORTER. The other aspect of it that's still challenging is the integration of the electronic warfare system. That is a must-do on the part of our crews to make sure that aircraft is survivable, and we've still got some challenges ahead of us on that one.

Mr. **Ray**. Mr. Chairman, if I could have 1 more minute to wind this up?

Mr. **Hutto**. OK, very quickly. We are operating more closely with the clock; it's working now. So if you could be very, very brief.

Mr. **Ray**. Do you know where the $125 million is going to be reprogrammed from?

General **Porter**. Yes, sir, the Air Force reprogrammed that internally from their, I believe, Maintenance and Spares account. I'll provide that more specifically for the record.

[The following information was received for the record:]

The Air Force requested reprogramming action to transfer $125 million to the Combat Talon II aircraft procurement fiscal year 1989/1991 appropriations. The sources of these funds include Air Force aircraft procurement, missile procurement, and research, development, test and evaluation. Specific budget activity detail will accompany the formal reprogramming request from OSD.

Mr. **Russ**. On the reprogramming action itself, it's still in OSD. The Air Force is paying for it out of hide, out of non-MFP-11 assets. We couldn't afford it ourselves, and they are doing it in fiscal year 1989. It's a very painful operation looking for the offset. We hope to have the reprogramming over here shortly.

Mr. **Ray**. This question you can submit the answer for the record but I need to put into the record, and that deals on page 6 of your testimony:

"The AC-120U program calls for 12 aircraft and we are monitoring it closely. The need for fire control radar, computer and software integration are demanding and subject the program to risk."

I'd like to be sure that the contractor is stable in this particular program, not going to drop out, and that I'm aware of the fact what our contract consists of.

General **Porter**. It's a very short answer. We have a very critical design review schedule for April; and that's exactly right, we need a baseline for that program.

Mr. **Ray**. If you will just expand in the record on that.

General **Porter**. Yes, sir.

[The following information was received for the record:]

The AC-130U Critical Design Review (CDR) is broken into five parts: airframe, avionics, software, supportability and other. The phased CDR began on 4 April and wrap-up is scheduled in late May 1989. At CDR the Government reviews the contractor design and if warranted, approves the design. The AC-130U CDR was slipped by the System Project Office (SPO) from January 1989 to ensure the contractor design was ready for CDR. For example, Rockwell made significant simplification in the software architecture to reduce program risk. In addition, Hq MAC has validated the AC-130U System Operational Requirements Document to establish an "operational" baseline.

To keep the program on track, the SPO is working a two-track approach that separates contracting from technical issues. Where applicable, engineering change proposals have/will be used to change the program baseline established as part of the CDR process. The SPO has worked to ensure that they have not placed unnecessary requirements on the contractor. The users have been actively involved to ensure proposed changes do not impact operational capability.

Although the contractor has not yet filed any claims on the full Scale Engineering Development (FSED) contract, any claims, if received, will be handled in accordance with Federal Acquisition Regulation procedures.

The above should not be construed to mean the AC-130U program does not face future challenges. Until the CDR is complete we will not have a comprehensive picture of the design situation. The SPO will document discrepancies found in the design and assess the impact of these discrepancies at the end of CDR. The FSED contract is at cost ceiling. We will continue to closely monitor the progress made on

the AC-130U contract. We feel that Rockwell International has a corporate commitment to field 12 operationally suitable gunships.

Mr. RAY. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Hefley.

Mr. HEFLEY. Just very briefly, General. We designated $300 million last year for the military to be involved in the drug war.

Are you getting any of that $300 million?

General PORTER. Sir, I saw General Olmstead's testimony, and he had a pretty tough time. The answer to that, no, not at this time. I don't believe the Department's made an allocation of that, sir.

Mr. HEFLEY. From your response to Mr. Bilbray's question it sounded as if the drug war is not a top priority issue with you. Is that correct?

General PORTER. Sir, I would say the training of our forces, and that's what we're all about. The training of those forces and how they can be applicable to other nations, we do that every day. In fact, we looked at that when General Lindsay came to testify before the HAC. On the lst of February he was here, we had 300 people in 12 different nations; and that is ongoing, and they change, switch, and move around. That's part of our business. That's part of the readiness aspect of what we do.

It's not that we put it on the back burner. It's up front.

Mr. HEFLEY. General, I would hope that would be the case. In our Investigations Subcommittee the other day when we had witnesses in from the Pentagon, there was great emphasis placed on the fact that—I think this Congress and the action we took last year does not want the Defense Department to regard this as a subsidiary tagalong kind of a program. But that this is a war that we want you, our warriors, to help us fight, because I think most of us are convinced we can't win it without your help.

So I want to hear from you that you, too, regard this as an important part of your overall mission.

General PORTER. Sir, just one thing to clarify, when I said 300 people in more than 40 countries—those were doing a whole array of different kinds of training with other nations. Training is a big, big part of our business, and a big part of the readiness of the whole Command, as you well know.

Mr. HEFLEY. Thank you very much.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you.

Along those lines, President Bush has specifically stated that he wants to use Special Operations Forces. So I'm glad that you are conducting your training in such a manner as to be prepared. Hopefully, if need be, SOF would get some of that funding that was appropriated for the drug war.

Mr. Russ, we were talking about reprogrammings a little while ago. Last year, there were over $55 million in requests for reprogramming for SOF requirements.

Why were there so many reprogrammings last year? Have all of the last year's reprogrammings been satisfied?

Mr. RUSS. Let me get to the point, and this was the point I had a lapse on earlier when we were talking about budget execution. We do have one reprogramming action from last year that is old business. It has to do with making some dollar realignments to fulfill the CH-47 program as it has been fully authorized and appropriated. There's $13.4 million which we were asked to display for the realignment of long lead events procurement money for the first five procurement MH-47 Echo Chinooks. That reprogramming action was sent over last April and is still in Armed Services, both your full committee as well as the Senate side. We are ready to answer any questions that may be holding up that reprogramming action.

I sat in an extensive review on this program last week; General Porter was there as well. Our understanding at this point is if the reprogramming approval by Congress is not there by the end of this month, it will have ramifications on both the schedule and possibly the dollars of the program. That is the old business.

Sir, we are hoping to minimize reprogramming actions in the future; but as we just mentioned, we have this big bill to pay on the Talon II for the $125 million there. Whether unfunded, near term needs come up, I cannot speculate.

We are, indeed, looking at the Panama MILCON project in the context of Congress' concern about our presence there, and so forth, so, likely, there will be a reprogramming there if we can find the right chemistry on the kind of project that's appropriate at this time.

Mr. HUTTO. If either or both of you could express your opinions on Initiative 17—I understand from Ambassador Whitehouse that it is dead, which I believe Congress intended it to be, and I would like to have your comments on that, if I may.

Mr. RUSS. Let me say, what is in the budget now, that you see in terms of a program, buys quite a few helicopters. The budget was based on the policy statements in the resourcing guidance that were in place at the time the budget was formulated. So we do have a consistency on the resourcing side—I'm not here making a policy statement regarding operational need, et cetera. But in terms of the resourcing, the budget before you was built on a solid base, in terms of guidance.

Mr. HUTTO. You haven't told me how you see Initiative 17. Is it dead?

Mr. RUSS. Let's let General Porter try first, and I'll come back to it from a resource policy standpoint.

Mr. HUTTO. General Porter?

General PORTER. Sir, let me take a crack at it. I know it's a very contentious subject.

We all know that we've got the 41 MH-53 Juliot. Also in the President's budget will be 51 47-Echos. There is a requirement for about 106 platforms—CV-22s and medium-range lift. That's the requirement.

The CV-22, at best guess today, IOC is scheduled for six aircraft, by late 1995; with all airplanes on board by 1998. That's a long way off.

I think Initiative 17 will be met with this 47-Echo system. The 47-Echo, being a capability that we will have on board, beginning in 1992 and continuing in 1993; we will have all the airplanes on board by 1993. I think that fills the void between the near term and the fielding of the CV-22.

So that, sir, I see the issue as really in transition. I don't see it as alive but I'm not sure I'd personally—and this may be contentious—I'm not sure I'd say it was dead. I think it's in transition. That's the way I would describe it. But I think we need to remain mindful of the requirement—requirements for lift platforms for these extremely capable people that we have to go do what we ask them to do.

Mr. HUTTO. All right. Would you provide for the record just how you see the 53s, the 47s, CV-22, and how that's going to play for our SOF forces in a few years?

General PORTER. Yes, sir.

[The following information was received for the record:]

The MH-53J, MH-47E and CV-22 are integral components of the force structure needed to meet SOF medium-to-long range airlift requirements. In order to meet even minimum operational requirements we need 52 long-range helicopters modified for threat penetration, at night, and adverse weather conditions. Today we have fewer than half that many MH-53J helicopters to meet that requirement. While the on-going modification of all remaining Air Force H-53 to MH-53 configuration will be a giant leap forward, it will still leave us 11 aircraft short of the minimum required. That is where the MH-47E comes into the picture. In the near term, the purchase of 17 MH-47E's will bring our combined Army/Air Force long-range helicopter fleet up to the minimum required level. The purchase of an additional 34 MH-47E's will provide SOF an enhanced near term capability until the CV-22 is fully fielded. The current schedule calls for full operational capability in fiscal year 1988 but that schedule is currently being reviewed by the DRB. Hence, the additional MH-47E platforms will fill an important void in SOF requirements for at least 5 years and probably longer contingent on CV-22 schedule revisions and funding support.

While helicopters are a cost-effective means of meeting medium range mission requirements, they lack the range and speed for long range operations. Dropping our Special Forces teams behind enemy lines makes little sense if we do not have the capability to retrieve them when the mission is complete. Our MC-130 Combat Talons provide a critically needed long-range infiltration and resupply capability but have only a limited exfiltration capability. Only the CV-22 has the combination of range, speed and vertical takeoff and landing capability needed for the long range exfiltration mission. The aircraft will also augment the Combat Talons in meeting long range infiltration and resupply requirements. Once the 55 CV-22's are operational the MH-53J's will be released to the Air Force for use in other mission areas.

Mr. HUTTO. Mr. Bilbray, do you have any further questions?

Mr. BILBRAY. No, I don't.

Mr. HUTTO. Mr. Ray, do you have further questions?

Mr. RAY. No.

Mr. HUTTO. Mr. Hefley.

Mr. HEFLEY. No.

Mr. HUTTO. Mr. Dornan, you're on.

Mr. DORNAN. No, sir.

Mr. HUTTO. No questions.

Let me ask you one or two more questions here before we close.

General Porter, would you summarize for us the number of military and civilian employees presently in place at the Special Operations Command? Do you have funding in the current budget for the legislatively mandated 450 persons, and do you need more than 450?

General PORTER. Sir, let's take the military first—472 authorized spaces today. Over 92 percent of those are filled. The funding is available for those spaces.

On the civilian side, about 135 spaces authorized. About 62 of those are what we would call professional level people; the rest clerical. Those are largely filled, sir, and so that is the present. There are a few unfilled spaces. For instance, in my own area we're adding a few spaces for the POM and budget execution process, and those are yet unfilled.

So that is the current situation.

If you look at the increased POM and budget responsibilities, the oversight responsibilities, and the acquisition arena, which the Command is addressing right now, and what kind of a structure it needs for that arena, we're looking at a military requirement of about 600. That's a round number. I'd like it to be a lot more refined than that, but that's where we are right now. It's not that far away from that number.

Mr. HUTTO. All right.

Has the CINCSOC Inspector General conducted an internal audit and inspection of all purchasing and contracting actions through the Special Operations Command? Are you aware of that?

General PORTER. Mr. Russ, do you want to take that?

I think we had better answer that for the record, sir.

Mr. HUTTO. All right, if you would.

[The following information was received for the record:]

No he has not conducted an internal audit and inspection of all purchasing and contracting actions through the Special Operations Command. The command has not established a contracting activity as yet. However, it is part of our approved acquisition concept. We plan to begin our own contracting in the current year 1991 timeframe. At present we have plans to establish an Internal Review Branch consisting of four auditors, under the Inspector General, prior to establishing the contracting activity. This branch will pursue an aggressive and continuous program of internal audit and review when activated. Presently internal headquarters requirements are contractually satisfied through host/tenant arrangements and the support of other agencies. Thus, audit and inspection requirements are fulfilled via the policies and procedures of the permanent organizations supporting USSOCOM.

Mr. RUSS. I would point out that the Command—and it's also mentioned in the law, in the context of having head of agency authority the command does have an IG, and we would have to see what the IG program is there as we look at that question.

General PORTER. Sir, just for your information, the only funds the Headquarters have now that it expends itself are the $23 million, roughly, for the Headquarters operation.

Mr. HUTTO. Let me ask you a little bit about the Talons and the gunships. Twenty-four Talons is the buy. How do we stand right now on that?

General PORTER. Sir, you will have the last two to look at in this budget—you've approved 22 of them. Then the reprogramming that Mr. Russ referred to—$125 million.

Mr. HUTTO. Yes.

How about the gunships, 12 total?

General PORTER. Yes, sir, and you've approved 7. I believe there are 5 in this budget; total of 12.

Mr. HUTTO. All right.

We want to thank both of you very much for your testimony and for your response to our questions, and we look forward to continually working with you for our Special Operations Forces. Thank you, Mr. Russ, thank you very much, and General Porter, for being with us.

With that, the subcommittee adjourns.

[Whereupon, at 10:40 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

[The following questions were submitted to be answered for the record:]

Funding

Question: In your testimony this morning and the prepared text provided us, you discuss and depict the funding that has gone into Major Force Program 11. I notice your testimony is primarily materiels oriented and has not addressed the total operations and maintenance issues under the purview of this subcommittee. Please explain Table I, since it appears to reflect the DOD budget and not necessarily MFP 11.

Gen. Porter

Table I

MAJOR FORCE PROGRAM ELEVEN

	FY88	FY89	FY90	FY91
Billions of Dollars	2.2	3.2	3.2	2.7
Annual Real % Change	-	+43.0	-3.0	-18.0
% of DOD Budget	0.78	1.10	1.05	0.84

Table I does represent MFP 11 funding levels covering the three services and all appropriations. It was designed to show funding trends for MFP 11 and the relative size of funding allocated to SOF compared to the DOD budget.

Question: Since Fiscal Year 1986, what is the total amount of O&M funding that you are managing? What is the status of this funding?

Gen. Porter : USSOCOM managed 11.4M in FY87, $22.3M in FY88 and 26.7M in Fy89. These funds were provided to USSOCOM to operate the USSOCOM headquarters. The services are still managing the O&M funds allocated to our components.

Question: What difficulties, if any, are you experiencing in implementing the MFP 11 Program? What action are you taking to overcome these problems?

Gen. Porter: The major difficulty that we are experiencing is determining how we will interface with the services in managing the MFP 11 and non-MFP 11 resources that support our special operations forces. We will always remain dependent upon the services for significant levels of support in the procurement, personnel, and accounting areas. The USSOCOM staff is developing a set of detailed Memoranda of Agreement between the services and USSOCOM. Management of the MFP 11 Program is a key item in these Memoranda as is the level of support that the services will continue to provide USSOCOM.

Question 1A. (Mr. Russ) Please explain table 1, (Mr. Russ's prepared statement March 14, 1989), since it appears to reflect the DoD budget and not necessarily MFP-11

Answer 1A. Table 1 reflects the funding of MFP-11, SOF programs, over the period FY 1988-FY 1991. It reflects the annual percentage of real change based on a baseline of FY 1988. MFP-11 as a percentage of the overall DoD budget is also identified. To give perspective to the overall SOF cost; MFP-11 represents approximately one percent of the DoD budget.

Question 1B. (Mr. Russ) Since Fiscal year 1988, what is the total amount of O&M funding that you are managing? What is the status of this funding?

Answer 1B. SOF O&M funding for the Army, Navy, and Air Force totaled $397.2 and $536.3 million in FY 1988 and FY 1989 respectively. This provides daily ongoing operations, training, and management of Headquarters funds, which are administered by the Services to support their SOF operations. ASD (SO/LIC) and USSOCOM monitor the expenditure of these funds by periodic reviews with the Services. Based on our last budget execution review and discussion with the Services, O&M expenditures are obligating as planned.

Question 1C. (Mr. Russ) What difficulties, if any, are you experiencing in implementing the MFP-11 Program? What actions are you taking to overcome these problems?

Answer 1C. SOF has experienced significant growth in a number of complex programs. We have been actively involved in assuring that these programs were adequately funded and executed properly with realignments made as needed. We have been working closely with USSOCOM to assure that budgets for these programs are executed in a sound and timely manner. Those areas of concern that require special attention have been identified and reviewed with the perspective Services. One area in which we are concerned is in regard to the FY 1989 Congressional add of $286.0M for SOF. The one year obligation period extended to the procurement items in the add was not expected. This strains our efforts to execute the program by the end of the fiscal year. Relief from this restriction is requested. One item which could use your support is the MH-47E reprogramming which is required to comply with FY1988 Joint Appropriation language. The reprogramming action, submitted in May 1988 is still awaiting approval of both the SASC and HASC. We are available to answer any questions regarding this action.

Question 2. In your prepared statement, you show a 35 percent increase in operations funding from fiscal year 1988 to fiscal year 1989 due to the increase cost to operate in the Persian Gulf. Now that things are apparently slowing down in the Gulf, do we still need to increase the budget for SOF activities there?

Mr. Russ. No, we do not need to increase the SOF budget for activities in the Persian Gulf. As a matter of policy, O&M funds for gulf operations have not been included in the FY 1990 or FY 1991 budget.

The 35% increase from FY 1988 to FY 1989 was for readiness activities combined with moderate growth in force structure. This large increase in SOF O&M costs had two major contributing factors. Our operations in the Gulf required additional funding for day-to-day operations and increased maintenance and overhaul of Naval Special Warfare Platforms. At the same time, we required additional funding to support approved growth in SEAL Force Structure in 1989. That force structure growth continues in FY 1990 and FY 1991. Our planned budget fully funds this increase in force structure and its attendant operating cost. The other major cause of O&M growth occurs in the Air Force to provide the needed readiness funding to support operational aspects of Air Force SOF aircraft. Like the Navy, there were force structure increases in FY 1989 requiring increased O&M funding. This growth continues into FY 1990 and FY 1991. As in the Navy, our budget funds fully these increases in force structure and platforms.

Funding for Additional Missions

QUESTION: If additional missions were placed on Special Operations Forces, such as helping in the drug war, what would be your ability to perform these new missions with current O&M funding?

Gen. Porter: To date, our support to the DOD anti-drug mission, as defined by legislation, has been relatively limited. We can increase our contribution in limited fashion by repriortizing into the anti-drug role from exercise participation and some areas of training. However, given the "current" nature of the task and capabilities of SOF, USSOCOM's counternarcotic role to date, is primarily to support USSOUTHCOM. Our principal tasking would include training and advising host nation military forces and, when authorized, police forces in drug source countries. If the SOF role were expanded in this area, Mobile Training Teams (MTT) and Deployments for Training (DFT) would continue to be requested and approved in accordance with existing laws, directives, and procedures and should not be considered as candidates for supplemental DOD anti-drug monies. Specifically, MTTs are funded through DOS International Narcotics Matters channels and DFTs would require repriortization as described above.

Question 4. In regard to the appropriated funds currently residing in the Defense Department, how are these funds allocated to the Individual Services? Who has the management responsibility for the acquisition of Special Operations unique items.

Mr. Russ SOF funds appropriated to the individual Services are released from DoD Comptroller to the Army, Navy, and Air Force under MFP-11. As intended by the legislation establishing MFP-11, overall visibility of Special Operations Forces programs is maintained and procedures are in place to oversee and monitor the expenditure of SOF funds within the Services.

Currently, responsibility for acquisition of Special Operations unique items rests with the Services and Defense Agencies. USSOCOM and ASD(SO/LIC) review and monitor the acquisition process to assure proper support of Special Operations Forces.

Executive Agreements

Question: Has the CINCSOC entered into any executive agreements with the military departments for the execution of the various budget elements? If so, please explain.

Gen Porter: Not as of this date. However, the command is currently in the process of establishing with each Service the mechanisms for MFP-11 Program and budget development. When the details are mutually satisfactory, Memoranda of Agreement will be executed to codify the programming and budget process.

Personnel

Question: Would you summarize for us the number of military and civilian employees presently in place at the Special Operations Command? Do you have the funding in the current budget for the legislatively mandated 450 persons? Do you need more than 450?

Gen. Porter : Headquarters USSOCOM has 470 (373 military and 97 civilian) authorizations and exceeds the mandatory manning level of 450. The command currently (March 1989) has 352 military and 90 civilian positions filled. The balance are in various stages of nomination and recruitment. All authorized positions are fully funded in the current budget. A requirement exists for approximately 130 additional authorizations. This would accommodate the increase required for Head of Acquisition Agency and Program Budget responsibilities. The detailed requirements for 41 of those additional authorizations have already been made to JCS. The balance is being defined at this time.

AIR FORCE O&M

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
READINESS SUBCOMMITTEE,
Washington, DC, Wednesday, March 15, 1989.

The subcommittee met, pursuant to notice, at 9:36 a.m., in room 2216, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. HUTTO. The Subcommittee on Readiness will come to order.

This morning the subcommittee will continue its consideration of the fiscal year 1990–1991 Department of Defense Operation and Maintenance budget request with testimony from Air Force witnesses.

Before proceeding any further, I want to welcome Lt. Gen. Claudius E. Watts, Comptroller of the Air Force, who had the good sense and judgment to marry a young lady from Marianna, FL. It is good to have you General Watts. Also, Maj. Gen. George W. Larson, Deputy Comptroller of the Budget, and Brig. Gen. John L. Finan, Director of Budget Operations.

I have looked over your statement and it is apparent that the Air Force has made some tough decisions in formulating its budget request. There is a substantial reduction in force structure that decreases O&M funding by about $400 million. To accomplish this, however, the active force loses three B–52 squadrons, two FB–111 squadrons, one KC–135 squadron equivalent and two C–130 squadron equivalents to the Air National Guard and Air Force Reserve. In addition, the tactical force structure is reduced by three tactical fighter wing equivalents and the SR–71 program is restructured.

I recognize that some of these planes are old and costly to operate, a number of squadrons are being transferred to the Guard and Reserve and will be available in times of need, and that new aircrafts, such as the B–2 and C–17, are being procured and will eventually replace some of these losses. Nevertheless, it results in a loss of 116 aircraft and a serious reduction in our strategic and tactical forces.

I want to also point out that today's testimony is based on the budget prepared by the last administration and does not reflect the changes that have been proposed by President Bush. It should be evident, therefore, that shortfalls or problems surfaced today are not likely to be relieved during the ongoing budget process. If anything, they will become more serious.

Finally, I am hopeful that during the course of today's hearing General Watts can provide the subcommittee with some insight with regard to President's Bush's budget that is due here shortly.

Mr. Kasich, our ranking minority member, cannot be with us at this time. I believe, Mr. Hefley will give his statement. Mr. Hefley.

Mr. **HEFLEY**. Mr. Chairman, I hope you think I am becoming quite good at doing my Kasich impression that I have done a number of times.

[Laughter.].

Mr. **HEFLEY**. I will do that again.

Mr. **RAY**. Hopefully, he might drop in every now and then.

Mr. **HEFLEY**. Well, that is right. It would be nice for him to drop by.

STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE, PRESENTED BY HON. JOEL HEFLEY, A REPRESENTATIVE FROM COLORADO

Mr. **HEFLEY**. Thank you, Mr. Chairman. I want to take this opportunity to welcome Lieutenant General Watts and Major General Larson and Brigadier General Finan, as we review the Air Force's Fiscal Year 1990 Operation and Maintenance budget.

I agree with the Chairman's remarks about the decisions taken by the Air Force in the face of the tight budget situation. In fact, the Air Force can almost be said to be undertaking a kind of structural disarmament in order to modernize within a very constrained budget. It is our task to see whether the Air Force has struck the right balance between modernization and readiness.

A decision to reduce current force structure and readiness in favor of modernization may be sensible, depending on the future security environment. But in no sense do we want to return to the hollow forces of the 1970's. I hope General Watts can provide this subcommittee with the information we need to make wise decisions.

Thank you, Mr. Chairman.

Mr. **HUTTO**. Thank you, Mr. Hefley. If you had been a little more animated there you would have sounded just like him.

Mr. **HEFLEY**. Well, I am working on it.

Mr. **HUTTO**. OK. It is good to have you gentlemen with us. General Watts, you may proceed as you see fit.

STATEMENT OF LT. GEN. CLAUDIUS WATTS, III, COMPTROLLER, U.S. AIR FORCE, ACCOMPANIED BY MAJ. GEN. GEORGE W. LARSON, JR., DEPUTY COMPTROLLER, BUDGET, AND BRIG. GEN. JOHN L. FINAN, DIRECTOR OF BUDGET OPERATIONS

General **WATTS**. Mr. Chairman, first I have a statement I would like to present for the record. Then if you would permit me to make just a few general comments before we proceed with questions.

Mr. **HUTTO**. Without objection, your full statement will be admitted for the record.

PREPARED STATEMENT OF LT. GEN. CLAUDIUS E. WATTS, III

INDEX

Title Page

Operation and Maintenance, Air Force.................. 1

O&M and Readiness..................................... 5

Force Structure Changes............................... 6

People.. 7

    Civilian.Pay..................................... 9

    Other Personnel Support.......................... 10

    Recruiting and Training.......................... 10

    Medical.. 11

    Morale, Welfare, and Recreation (MWR)............ 12

Flying Hour Program................................... 13

Depot Maintenance..................................... 17

Space Operations...................................... 19

Base Operating Support................................ 21

Real Property Maintenance 22

Other Programs.. 24

Conclusion.. 24

Mr. Chairman and Members of the Committee:

I am pleased to appear before this Committee to present and discuss the Operation and Maintenance (O&M), Air Force budget request for FY 1990/1991. My statement will discuss the O&M funding history from FY 1988 through FY 1991 and will highlight the forces, manpower, and programs supported by these O&M funds.

The following is a summary of the Air Force FY 1988-1991 O&M account:

($ Millions)

	FY 1988	FY 1989	FY 1990	FY 1991
O&M, Air Force (Active)	$20,313	$22,018	$23,265	$23,870
O&M, Air Force Reserve	1,000	1,072	1,007	1,043
O&M, Air National Guard	1,958	2,018	2,056	2,185
Total Air Force	$23,271	$25,108	$26,328	27,098

For the remainder of my statement, I will focus my comments on the O&M, Air Force (active) request, since the Air Force Reserve and Air National Guard budgets are reviewed separately by this Committee.

OPERATION AND MAINTENANCE, AIR FORCE

The Air Force Operation and Maintenance (O&M) appropriation finances the day-to-day operating costs of the Air Force at 130 major installations. This appropriation supports the key ingredients of combat readiness by providing the funds needed to operate and maintain aircraft and related weapon systems; train personnel; operate communications, command, and control systems; and purchase supplies, equipment, and fuel. O&M also supports essential combat related activities such as intelligence, logistics, weather, air traffic control, search and rescue, medical operations, maintenance of runways and base facilities, contract services, and the working and living environment of Air Force personnel.

Financial requirements in the O&M appropriation are influenced by force structure levels and activity rates. Examples are the number and type of aircraft and squadrons, the number of aircraft sorties and flying hours, equipment inventories, modification acquisition schedules, civilian hiring, training and deployments, the number of installations, and the quantity and complexity of vehicles and other operational equipment.

Economic assumptions used in developing this budget are:

	FY 1989	FY 1990	FY 1991
Civilian pay raise (%)	4.1	2	3
Inflation:			
Standard (%)	3.8	3.4	3.0
Foreign Currency Rates:			
Deutsche Mark	2.06	1.75	1.75
Yen	163.10	123.52	123.52
Pound	.70	.55	.55
Fuel Price (Composite)			
Per barrel	$ 26.46	$ 23.56	$ 24.83
Per gallon	.63	.56	.59

Traditionally we tend to look at O&M according to how our accounts are structured; that is, by Major Force Program or mission area. Our budget justification book is prepared in this manner.

Today, I would like to take a somewhat different approach and focus more on major functions or categories where we plan on spending our O&M funds and where the funding changes between FY 1989 and FY 1990/1991 are significant. These are as follows:

O&M, AIR FORCE

($ Millions)

	FY 1988	FY 1989	FY 1990	FY 1991
People				
Civilian Pay*	$4,472	$4,759	$5,148	$5,337
Recruiting/Training	422	472	548	563
Medical	1,298	1,391	1,555	1,641
Flying Hours/Associated Costs	2,506	2,734	2,468	2,498
Depot Maintenance/with MODS	2,756	3,134	3,253	3,202
Space	665	828	827	880
Base Operating Support	962	817	1,049	1,136
Real Property Maintenance	2,017	2,082	2,271	2,372
Other Programs	5,215	5,801	6,146	6,241
Total	$ 20,313	$ 22,018	$ 23,265	$ 23,870

*Excluded from other categories.

As a result of the FY 1988 budget summit agreement on top line funding for DoD, Air Force O&M received Congressional reductions amounting to $1.7 billion. Furthermore, we absorbed $0.5 billion of additional costs for such things as fuel price increases and civilian health benefits. These fiscal restraints had serious repercussions within the Air Force resulting in fewer flying hours, reduced civilian hiring, and increased backlogs from deferred maintenance for equipment and facilities. In the final analysis, the result was negative real growth of 9 percent between FY 1987 and FY 1988. The Air Force programmed a two-year recovery from this severely constrained funding level in FY 1988.

In FY 1989, the first year of the recovery, the Air Force made a conscious decision to focus on direct readiness and logistics programs. Flying hours were restored to the FY 1987 programmed level of hours per crew, per month. Depot maintenance and other logistics support activity funds were increased to a level that would better support operating activity levels required to meet mission objectives. Congress sustained these efforts with minimal reductions to the O&M account in FY 1989.

FY 1990 is the second year of the Air Force's planned two-year recovery. In this year, emphasis has been placed on readiness support areas. Civilian personnel workyears have been increased to support an average utilization rate of 98 percent. Real property maintenance activities grow for environmental compliance, military to contract conversions, and increased real property maintenance by contract in an effort to restrain the backlog of maintenance and repair of our facilities. An increase in base operating support includes a $114 million transfer from the classified programs and funding for basic infrastructure requirements such as dormitory furniture, transportation, supplies and equipment.

FY 1991 funding simply allows us to maintain the FY 1990 level of operation and support activities.

The following table provides the key price/program changes from FY 1989 to FY 1990 and FY 1990 to FY 1991:

	($ in Millions)
FY 1989 Current Estimate	$22,018
Price Growth	742
Civilian Personnel	166
Base Operating Support	189 *
Real Property Maintenance	81
Medical	87
Remaining Program Growth	-18
FY 1990 Estimate	$23,265
Price Growth	601
Program Growth	4
FY 1991 Estimate	$23,870

*$Includes $114 million transfer from classified program.

O&M AND READINESS

The military might of a nation has historically been measured in terms of troop strength and quantities of hardware: divisions, tanks, aircraft, missiles, and ships. However, an assessment of military capability based exclusively on quantities of equipment and number of personnel ignores the readiness element of combat capability. Readiness is the ability of forces, units, weapon systems, or equipment to deliver the outputs for which they were designed (includes the ability to deploy and employ without unacceptable delays), along with the forces in being (force structure), age and technological capability of weapon systems and equipment (modernization), and the ability to continue effective military operations over an extended period of time (sustainability). Readiness is an essential element of combat capability. The O&M funding requirements reflected in this budget adequately support a smaller but capable force structure that is ready to meet national security objectives.

FORCE STRUCTURE CHANGES

The Air Force recognizes fiscal constraints are being driven by the federal deficit and that budget requirements planned and programmed for in good faith, cannot always be fully funded. We made some hard, tough decisions and consciously elected to avoid the hollow force structure of the 1970's and opted instead for a reduced force structure that maintains capabilities. These force structure changes are detailed below and resulted in reduced FY 1990/1991 O&M funding of $399 million.

In the strategic area, our offensive force structure is reduced by deactivating three B-52 squadrons/squadron equivalents, two FB-111 squadrons, and transferring one KC-135 equivalent squadron to the Air National Guard. The impact of these reductions is 32,000 less flying hours and a $87 million reduction in O&M costs. In addition, the SR-71 program is being restructured for a saving of $203 million. Our strategic defensive force structure consists of two F-15 air defense squadrons. One will be transferred to the Air National Guard and one will convert to F-16s. The impact is 5,000 less flying hours and a $9 million reduction in O&M costs.

The tactical force structure is reduced from 38 tactical fighter wing equivalents (TFWE) to 35 TFWEs. One TFWE came from reducing 8 Guard/ Reserve squadrons from 24 primary aircraft authorization (PAA) to 18 PAA as we modernized them during conversion. In addition, one Air National Guard F-4 squadron will convert to an OA-10 Forward Air Control (FAC) squadron. The second TFWE is the 474 TFW (F-16s) at Nellis AFB, Nevada, which is programmed to come off the books at the end of FY 1989. The third TFWE is a CONUS replacement for the 401 TFW (F-16s) at Torrejon AB, Spain which will be retained overseas but not in Spain. The offset for retaining the 401 TFW in Europe is derived from the following: consolidating F/RF-4 training at George AFB, California; deactivating one F-16 C/D squadron at Homestead AFB, Florida; reducing A-10s at Davis-Monthan AFB, Arizona; and reducing F-15s at Tyndall AFB, Florida. These actions reduce O&M costs by $67 million. Also in the tactical area, ground launched cruise missile (GLCM) flights are continuing to be phased out reducing O&M costs by another $26 million.

Airlift force structure changes include the transfer of two C-130 squadron equivalents to the Air National Guard and Air Force Reserve in FY 1990 and the introduction of the C-17 and the C-STOL (C-27) aircraft in FY 1991. O&M dollars will be required to fund the C-17 Aircrew-Training System (ATS). The five C-STOL aircraft are scheduled to be delivered in the fourth quarter of FY 1991, with some minor associated O&M costs. In addition, the Air Force Combat Rescue Forces are being modernized by replacing CH/HH-3E helicopters with MH-60G helicopters. The overall savings associated with these modernization efforts total $7 million.

PEOPLE

People are our key resource. No investment in equipment and facilities would produce readiness without well-trained, motivated, and dedicated people. We must attract and retain high quality people, train them to do their jobs, and sustain them and their families.

To maximize the personnel resources utilized by the Air Force, our first priority is to identify the kinds of people that are needed to execute our mission, as well as identifying the most efficient operations. Under the total force concept, we continually evaluate our personnel requirements to ensure that we have the correct mix of officer, enlisted and civilian personnel. The Air Force share of the Congressionally directed officer reduction resulted in conversions of officer billets to either civilian or enlisted authorizations. As a result, Air Force civilian authorizations increased by 420 in FY 1989 and 440 in FY 1990. An additional 1,100 military were converted to civilian in FY 1990 as a result of our continual review of military essential spaces. This conversion occurred primarily in base operating support and real property maintenance activities. Finally, as a result of our support for the President's goal to increase Federal productivity by 3 percent annually, the Air Force is conducting across-the-board cost comparisons (A-76) and functional reviews. For example, 1,729 military spaces and 1,497 civlian spaces will be converted to contract in FY 1990. The funds for these contract conversions are now reflected in the O&M account. For the military conversions, this is a transfer from another appropriation as opposed to program growth. In spite of these changes, the O&M, Air Force civilian population remains relatively constant from FY 1989 to FY 1990 and into FY 1991. Budget constraints in FY 1988, discussed earlier, drove civilian hiring down well below programmed requirement levels in FY 1988.

End Strengths

(000)

	FY 1988	FY 1989	FY 1990	FY 1991
Military (Active Force)	576.4	571.0	571.1	566.8
Civilian (Active O&M AF)	160.0	171.3	171.3	170.6

Civilian Pay

The funding to support this Air Force O&M civilian profile resulted in an increase of $389 million from FY 1989 to FY 1990. Approximately half of this increase ($160 million) was driven by pricing changes such as FY 1989 annualized health benefit costs, a Federal Employees Retirement System (FERS) cost increase and a two percent pay raise in FY 1990 for all civilians, both U.S. and foreign nationals. A change in the foreign currency exchange rate, to more accurately reflect the current value of the dollar, alone resulted in an increase of $63 million. The remainder of the increase ($166 million) pays for an additional 4,000 workyears over FY 1989. These additional workyears are due to an increase in the hiring rate against available spaces from 95 percent in FY 1989 to 98 percent in FY 1990 and FY 1991; the conversion of the San Antonio Real Property Maintenance Activity (SARPMA) from an Industrial Fund Activity to O&M funded; and the officer to civilian conversions. It should be noted that, to the extent foreign national pay raises continue to exceed those allowed for U.S. nationals, the O&M account will be forced to absorb shortfalls in FY 1990 and FY 1991 through reduced hiring or other actions.

Other Personnel Support

Although the pay and allowances for military members are reflected in a separate appropriation, O&M also provides personnel support for our military members. Our recruiting stations and advertising are paid for with O&M funds. O&M funds operate the technical training centers which provide entry level job skill training as well as advanced courses required for our members to become senior technicians and managers. When new weapon systems are acquired, instructors and maintenance personnel are sent to the manufacturers' plants for training. Once military personnel are trained and in the field, most of their operating support, except for pay and food, is provided by O&M funding. Dormitories are maintained and equipped, and dining halls are operated with O&M funds. Real property maintenance funding determines the condition of these facilities. The O&M dollars spent in support of military personnel have a positive impact on retention. These dollars help avoid much larger costs that will be incurred if we are required to recruit and train replacements for dissatisfied members who leave the Air Force.

Recruiting and Training

Once we have identified the kinds of people we need and have brought them on board, our next priority is to ensure all personnel have the training necessary to contribute to the Air Force mission. Air Force recruiting and training programs grew by $76 million in FY 1990 but remain level into FY 1991. Forty-five million dollars of this increase is a transfer in from the Military Personnel Appropriation for Aircraft and Simulator Maintenance Contracts. The increased training dollars also will purchase additional technical training for the support of a variety of specialized intelligence training systems involving imagery processing and signal intelligence, as well as an increase in scholarships for ROTC students in engineering and other technical degree programs.

Medical

Once we ensure we have the right people in the right job with the appropriate training, we can focus our efforts on providing for the health care of our members and their families. A major issue facing the medical community of the Air Force, as well as private industry is the rising cost of health care. To provide quality health care while aggressively addressing the cost issue, we have invested $33 million in FY 1990 in a series of health care initiatives to control the growth of Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) medical costs. These initiatives should provide greater health care capability at our own military facilities at a lower cost to the Air Force. These cost efficient measures will also translate into a reduction in out-of-pocket costs to our families as usage increases at our military treatment facilities. In addition, this budget fully funds CHAMPUS under the new catchment area concept. Under this concept, selected bases can expand services, thus reducing CHAMPUS costs. This provides an opportunity for local managers to provide better health care in a more efficient manner with available resources.

Morale, Welfare and Recreation (MWR)

MWR programs are one of the best forms of nonmonetary compensation. They provide a direct contribution to morale, fitness, and a healthy lifestyle for our people. Their value is ultimately measured in the readiness of our force. At overseas locations, they are often the only social activities available to our families. In such instances, they provide food, entertainment and social activities familiar to American taste and values, fostering a sense of community togetherness and pride.

During the past three authorization and appropriation hearings, the committees provided the Services guidance in the funding and operation of these programs. In FY 1988 and FY 1989, Congress established a ceiling on the amount of appropriated funds that can be used in support of MWR activities. They further directed the elimination of direct appropriated fund support to MWR revenue generating activities and a reduction of nonappropriated subsidy to those activities authorized appropriated fund support. The ceiling was intended to encourage the Services to reallocate funding in accordance with this philosophy. A DoD policy implementing this guidance has been approved. The policy recognizes the government's responsibility to fund activities such as gymnasiums, libraries, and child care centers that support the organizational and institutional goals of the Air Force. It also recognizes that certain activities, such as golf courses and bowling centers, primarily benefit the individual and will be supported through self-generated monies and operated as business activities.

While we have worked to reduce taxpayer funding of revenue generating activities, the ceiling limits our ability to fully comply with the Congressional intent. As a result, the Air Force faces a minimum shortfall of $95 million each fiscal year in appropriated fund support for MWR activities such as gymnasiums, libraries, and child care centers beginning in FY 1989. This shortfall is the difference between the appropriated funding ceiling and the amount required to fully fund these activities. The bulk of the shortfall is for appropriated fund staffing in activities that previously had substantial nonappropriated staffing. The level of MWR funding in this budget for FYs 1990 and 1991 reflects only the Congressionally approved FY 1989 funding ceiling, plus growth for inflation.

We believe the approved DoD policy adequately addresses priority Congressional concerns over the proper uses of appropriated and nonappropriated funds in these activities. We feel with that policy in place, future levels of support should be driven by mission requirements and environmental conditions. Accordingly, we request this Committee's support for removal of the ceiling.

Our highest priority remains to recruit, train, support, and retain top quality people. We have long recognized that our greatest strength comes from the spirit, resourcefulness, and dedication of our people.

FLYING HOUR PROGRAM

The Air Force flying hour program is key to the readiness of our strategic, tactical and airlift forces. In light of fiscal constraints, the FY 1990/1991 program reflects the minimum acceptable combat capability for our given force structure. The Air Force's flying hour program for the Active Air Force decreases by about 94,000 hours or 3.9 percent between FY 1989 and FY 1991, but the hours per crew per month remain at the FY 1987 programmed activity level. The flying hour decreases are primarily due to the force structure reductions of 116 aircraft addressed earlier in this statement. These reductions include the retirement of 35 B-52's ($-34.5 million); the transfer of 14 KC-135s ($-11.2 million) to the Air National Guard; and reductions in F-4E/Ds, F-111s, and RF-4 aircraft ($-57.9 million).

The following table shows the active aircraft inventory and the flying hours funded by the O&M, Air Force account:

O&M, AIR FORCE ACTIVE AIRCRAFT INVENTORY AND FLYING HOURS*

	FY 1989	FY 1990	FY 1991
Primary Aircraft Inventory (PAI)	5,530	5,400	5,414
Flying Hours (000)	2,369	2,288	2,275

*Includes Foreign Government Owned (FGO) aircraft operated by the Air Force.

The primary aircraft inventory (PAI) is the inventory of aircraft actually assigned to units for the performance of their operational missions. It is the factor that is used to determine flying hour allocations. There is a correlation between changes in PAI and changes in flying hours; however, due to the phasing of force structure changes, the full flying hour impact of PAI changes may not be realized until the following fiscal year.

The O&M PAI shows a net decrease of 130 in FY 1990 and net increase of 14 in FY 1991. The Air Force's modernization program continues as F-16 A/Bs are replaced by F-16 C/Ds; B-52Gs begin phasing out; F-15Es continue building; and the capabilities of the Special Operations Forces are expanded.

A substantial portion of the total O&M budget directly supports flying operations. A large part of the depot maintenance program, all aircraft contractor logistics support (CLS), all of the aviation petroleum-oil-lubricants (AVPOL), and roughly 25 percent of the supplies purchased with O&M funds directly support aircraft and flying operations.

CLS is a preplanned permanent support concept that provides total or near total logistic support to a system or equipment by contract throughout its entire life cycle. The Air Force contracts for all or part of the system/equipment's logistic support at one or more levels of maintenance in lieu of developing an organic capability.

The need for aviation petroleum-oil-lubricants (AVPOL) and supplies is straightforward. Aviation POL is the fuel consumed in flying aircraft and in maintaining and testing engines. Due to lower DoD fuel prices, AVPOL cost per gallon (composite price) is programmed to drop from .63 in FY 1989 to .56 in FY 1990. This results in a savings of $142 million in FY 1990. Supplies are the replacement parts and other expendable items used by field maintenance organizations to repair aircraft.

Flying hours generate expenditures for aviation fuel, supplies, depot maintenance, contractor logistics support, TDY, training, range time, and transportation. Just as important as the hours themselves are where and how they are flown. Straight and level flight, for example, does little to prepare a fighter pilot for war. Aircrews must practice, as nearly as possible, under conditions they would face in actual combat. Training must be rigorous and realistic to allow crew members to exploit the full potential of their weapon system. As weapons have become more expensive and more lethal, practice with "live" weapons has become increasingly limited. Electronic simulation devices complement practice with actual weapons. Improved technology on our training ranges enhances realism when electronic simulation devices are used.

To meet this training challenge, highly sophisticated training ranges are being maintained at the Tactical Air Warfare Center, the Tactical Fighter Weapons Center, the Strategic Training Route Complex, and other weapon training sites. Here aircrews can simulate weapons releases against simulated enemy defenses. These ranges and the simulation devices, such as Air Combat Maneuvering Instrumentation (ACMI), are supported with O&M dollars.

Generally, aircrews must deploy to use the ranges. For example, aircraft and crews from Moody AFB, Georgia, may go to the ranges at Nellis AFB, Nevada, to employ precision guided weapons. When a squadron is deployed, its maintenance capability goes with it. Maintenance people, spare parts, tools and equipment are deployed, and we provide a travel allowance to aircrews and maintenance personnel which helps offset their additional living costs. The spares and required maintenance equipment must also be transported to the range. All these transportation and TDY costs are paid with O&M dollars.

Training deployments produce other readiness benefits. U.S. based units become more effective by deploying to Europe or the Pacific to train in the environment in which they may have to fight. Effectiveness of our alliances is improved by conducting exchange and interoperability exercises with allied nations. These exercises require significant expenditures of O&M funds but have a high payoff in readiness training. For aircrews and maintenance personnel to perform the duties for which they train, they must have the weapons, maintenance equipment, parts, and supplies they need. Transportation of materiel from supply centers in the United States to the using unit, wherever it might be, is paid with O&M funds.

DEPOT MAINTENANCE

The Air Force Depot Maintenance and Modernization Program is one of the most visible of the O&M programs because of its cost and direct impact on force readiness. Depot Maintenance and Modernization provides for centralized maintenance and modification of aircraft, missiles, engines, other major equipment items, area base maintenance, exchangeable (repairable) subassemblies and/or components. Depot Maintenance also includes Interim Contractor Support (ICS), Big Safari (classified program), and Other Logistic Activities (OLA). Depot level maintenance is accomplished at the five Air Logistics Centers (ALCs), the Aerospace Guidance and Metrology Center (AGMC), the Aircraft Maintenance and Regeneration Center (AMARC), through interservice support, or by defense related contractors.

O&M funds spent for depot maintenance maintain and improve war fighting capability. Combat training must be rigorous to be effective, and under the stress of such training, equipment deteriorates rapidly. Air Force equipment is also exposed to the elements in some of the world's harshest environments. Since we train with the weapons we fight with, deteriorated equipment must be restored or replaced. By restoring equipment to a ready state, depot maintenance helps avoid tremendous investment costs (repair vs. buy cost is 7 to 1 return on dollars) as well as ensuring a high level of weapon system readiness to meet potential worldwide mobility commitments.

Beside deterioration and the need to maintain a consistent peacetime readiness posture, the Air Force must deal with obsolescence and the resulting need for new capabilities and technological advances. In many cases, we avoid buying new systems by modifying and extending the useful life of existing systems. The KC-135 re-engining program is an example of a current modification. Although modification kits are bought with procurement funds, installation of these kits is an O&M "modernization" cost -- whether accomplished by private contractors or by in-house organic capability.

The four major factors that drive the requirements for depot maintenance are the number of aircraft in the inventory, aircraft age, the flying hour program, and the complexity of highly technical aircraft systems. First, the number of aircraft in the total Air Force inventory has decreased from 6,368 in FY 1978 to a FY 1990 total of 6,008; however, the current average age for the entire Air Force inventory is 15.8 years and growing. As the aircraft get older, they generally require more maintenance at a greater cost. For example, accumulated stress and fatigue damage has necessitated the introduction of an F-15 Programmed Depot Maintenance Program beginning in FY 1990. The active Air Force flying hour program has decreased between FY 1989 and FY 1991 resulting in a slight decrease in flying hour driven requirements measured in constant dollars. Finally, even though newer aircraft are designed and produced to be highly reliable and maintainable, producing more flying hours between repairs, the repairs to these highly technical systems may cost more than the less sophisticated systems of earlier models. In addition, the technical complexity of our new systems and equipment and the commensurate complexity and lead time to acquire necessary organic maintenance support, often forces the Air Force to utilize Interim Contractor Support until we can establish an organic maintenance capability. As a result of the above factors, the maintenance environment changes to keep pace with the dynamic challenges placed on it. The Air Force budget contains adequate funds needed to keep pace with changing requirements.

Unfortunately, since FY 1985, fiscal constraints have caused a growth in the unfunded requirement (backlog) which is carried forward into the following year. While the FY 1990/1991 President's Budget does not eliminate those backlogs, it does provide for adequate funding to support the flying hour program and maintain readiness.

SPACE OPERATIONS

Our military space systems support a variety of essential military operations such as navigation, communications, surveillance, treaty monitoring and weather observation. Satellites have global access and are much more efficient than alternative means of support. This is the primary reason systems, such as the Defense Meteorological Support Program (DMSP), the Defense Support Program (DSP) and the Defense Satellite Communications System (DSCS), have become totally irreplaceable for the success of military operations. Space operations has been one of our most dynamic areas in the last three years and will remain so in the future.

The ability to launch our space systems into orbit was shaken to the core by the Shuttle and Titan accidents in 1986. The Air Force, as the DoD agent for space launch, rapidly moved forward with a Congressionally-supported plan to recover our space launch systems and develop a more robust national capability. This strategy has reached fruition. Fiscal

Year 1989 is a high point in DoD space operations as several new launch systems reach initial launch capability.

Fiscal Year 1990 will be even more active as all DoD launch systems move toward maximum launch rates or into final activation. The heavy launch rate is driven by the need to orbit the backlog of satellites awaiting launch since 1986. We will launch six Delta II missions in order to move NAVSTAR well on its way toward an operational constellation in FY 1992. Three DoD Shuttle missions and three Air Force Titan IV, O&M funded, missions are planned. We assume operational funding responsibility for the Titan II space booster at Vandenberg AFB, California in 1990 and will use it for the Defense Meteorological Satellite Program and other programs in the future. Our combined launch rate for these Delta II and Titan IV boosters and other smaller ones, such as Atlas E, will be ten missions in 1990. The rate will be almost as high in 1991.

The capacity of the Air Force's Satellite Control Network (AFSCN) is expanding to meet the workload that will be generated from increasing launch activity in 1989/1991. The Consolidated Space Operations Center (CSOC) located at Falcon AFB, Colorado Springs, Colorado, includes facilities which provide improved survivability and security for space operations; improved planning, preparation and control for operational DoD satellite systems; and it serves as the command and control center for the Air Force Satellite Control Network (AFSCN). Three very dynamic years are ahead in the space operations area--three years which must be completed successfully in order to ensure DoD space launch recovery is complete and our vital on-orbit assets are providing all the support needed by the military commander in the field.

BASE OPERATING SUPPORT

Base operating support (BOS) is synonymous with readiness. Driven by mission requirements, many BOS requirements are fixed and inflexible because they are predetermined by the force structure. BOS is not easy to quantify in terms of number and age of installations, or by the number of aircraft, flying hours, or workyears. It is a program that cuts across all major force programs and is an integral part of the mission structure. Remember, BOS is readiness support and not just "housekeeping."

BOS includes, but is not confined to, support for such functions as Services Squadron, Transportation, Supply, Security Police, MWR, Communications, Personnel, Comptroller, Chaplain, Judge Advocate, and Transient Aircraft Alert. These functions incur various types of expenditures including civilian pay, travel, supplies, equipment, purchased maintenance of equipment, and other miscellaneous contract services. It is important to remember that civilian pay and contracted services account for 74 percent of BOS. Thus, reductions in this area directly impact people and hiring postures.

Funding requirements are :

	($ Millions)			
	FY 1988	FY 1989	FY 1990	FY 1991
Base Operating Support*	$1,921.5	$1,823.9	$2,143.2	$2,272.9

*Includes civilian pay.

Even after the addition of $60.7 million in FY 1988 for three bases transferred to O&M from RDT&E, FY 1988 BOS funding was well below the $1,962.5 million executed in FY 1987. While the Air Force programmed in FY 1989 to keep BOS at approximately the FY 1988 level, it received a $181.7 million non-programmatic reduction. This funding level constrained BOS even below the extremely austere FY 1988 program, causing continued deferral of equipment, supplies, and contractual services needed to provide an adequate working and living environment for mission and support personnel.

The FY 1990 increase in BOS includes price growth of +$100.6 million, net transfers of +$123.4 million ($114 million from classified programs), and program growth of +$95.3 million. The program growth in FY 1990 provides resources to alleviate some of the negative impact of constrained funding in the two previous years. Major increases are for, family support centers, Unaccompanied Personnel Facilities Improvement Program (UPFIP), equipment maintenance for new automated systems, civilian pay, and support costs associated with the conversion from the F-4 to the F-15E.

It is important to note, however, that the program growth will still not restore the BOS program to the level actually executed in the constrained FY 1988 environment and must not be further reduced.

REAL PROPERTY MAINTENANCE

About 13 percent of the O&M budget is for Civil Engineering activities, including maintenance and repair of real property. Operation and upkeep of the facility plant are of vital concern since the Air Force currently trains and will fight from its bases. Much of the plant is the supporting structure for readiness and sustainability: maintenance hangars, aircraft shelters, missile silos/launch facilities, command and control facilities, training buildings, and runways. The plant also provides essential living and recreation areas for our people, helping to retain a quality force.

Requirements to preserve and adapt the plant to current needs continually accrue. New maintenance and repair efforts arise as the plant grows older. The average age of facilities is over 31 years and much of the plant is of World War II or Korean War vintage. Increasing constraints on Military Construction funds dictate the extended use of our facilities. More stringent life/safety, fire protection, and environmental criteria, especially the latter, are demanding an increasing share of our maintenance funding. Our older facilities must be renovated to comply with current public and legal standards. A commitment to fund these efforts is cost effective and provides long-range benefits, and we have included $45 million in this budget for these compliance efforts.

Due to the keen competition for funds, neither the FY 1988 actual funding, nor the FY 1989 appropriated amount for Real Property Maintenance (RPM) is sufficient to satisfy the level of new maintenance and repair requirements. Although there are slight increases for RPM in the FY 1990 and 1991 budget requests, these increases are from a severely depressed base line. Within this constrained budget, we earnestly need your full support for partial restoration of RPM funding in FY 1990 and FY 1991.

OTHER PROGRAMS

This area contains the remaining Air Forces mission costs. It includes categories such as sustaining engineering, supplies and equipment (non-flying), first and second destination transportation, direct mission travel (e.g., exercises, inspection visits, and mission crews), communications to include dedicated circuits and common-user requirements, National Foreign Intelligence Program (NFIP) and other classified programs, workman's compensation, and numerous contractual efforts. Some of the larger support contract efforts include the Distant Early Warning (DEW) line, North Warning System, Over-The-Horizon Backscatter (OTHB) Radar, ADPE processing services for all computer systems, purchased equipment maintenance for all mission areas, and range contract operations (e.g. Nellis, Eastern/Western Test Ranges). While there is a wide variety of minor offsetting changes to various programs due to operational systems changes, as a general rule, the growth between FY 1989 and FY 1990 can be attributed to inflation plus a funding pass through to the Airlift Service Industrial Fund. The FY 1990 to FY 1991 growth is for inflation.

CONCLUSION

This concludes my statement on the FY 1990/1991 O&M, Air Force budget request. This budget request provides the minimum resources required for a smaller force structure and attempts to balance our readiness requirements against pressing needs for modernization within constrained fiscal parameters.

General WATTS. Mr. Chairman, Mr. Hefley, and distinguished Members of the subcommittee here. Mr. Chairman, I join your many friends in congratulating you on your assuming the chairmanship of this subcommittee. I think my 3 years or so of working directly with this subcommittee tells me that when we talk about readiness, it is a term that is loosely used and sometimes very poorly understood. So, you and your members here have the tough job of trying to make sure that we achieve the proper balance between modernization and maintaining readiness with our given forces.

We are delighted to be here this morning. My intent is to make sure that we are as forthcoming as we possibly can be, both here today and in subsequent follow-on contacts with you and your members and staff.

You know that we are continuing in the Air Force to emphasize our people. I want you to know that we have the finest people this country has to offer today. The Air Force personnel are second to none. They are bright, they are sharp. I am talking about the youngsters, I am talking about the blue forces out on the flight line, I am talking about the clerks.

We have the four pillars: quality people, we emphasize readiness, we emphasize sustainability and certainly modernization is a key part of the overall equation. Part of our challenge is to maintain a balance, because modernization provides us the basic wherewithal to meet the needs in the future; and without that, we become shortsighted.

I like to look at our Air Force O&M budget and the dollars associated with that budget as the very lifeblood of the Air Force and, in fact, of any military service. Because without our O&M dollars, the very infrastructure, the very fabric comes apart. So, we have to be the ones who come over here and try to explain to you the needs that we have within our O&M budget.

Now, we all remember coming through probably the toughest year in my career, in 1988, as far as O&M funding was concerned. Because of the efforts of you and members of your committee, we were able to minimize our losses in 1988. As a matter of fact, I think we came out in the end rather whole. But, we could not have done that without your wholehearted support and you did come to our aid, our rescue, during the execution year of 1988.

Now, 1989 represents the first year of what we call a 2 year recovery from our 1988 experience. You will see that we are asking for something on the order of a $1.2 billion increase, 1989 to 1990. 1989, put emphasis on direct readiness support, readiness, flying hours and logistical support and other logistics activities.

1990 is a continuation of our attempt to recover. We are talking about readiness support activities; i.e; we are trying to rebuild our civilian work force. We are trying to rejuvenate some of the programs we had with our base operating support. We are talking about increasing our emphasis on medical care for our people, because we have continued to run behind in trying to provide medical care for our people.

I will not go into any grand detailed numbers. But, suffice it to say going from 1989 to 1990 we are asking for about a $1.2 billion increase: $760 million or thereabouts represented by inflation. So, we are really not asking for any real growth, because you will see we drew force structure down, and as you pointed out, Mr. Chairman, we are saving some $400 million with those force structure adjustments.

We have other bills that are coming due, other things that we are having to do. Our goal is to try to maintain the infrastructure that we have in the United States Air Force today.

I believe with those comments, Mr. Chairman, we will give you all the support we can and we are ready to field any questions that you have. We want to maintain the capability that we have today. As you well know, the strategy that is adopted by this country is dependent on our ability to execute today with today's forces. That is what readiness is all about and that is what our O&M funding is all about today. Thank you, sir.

Mr. HUTTO. Thank you, General Watts.

You indicated that 1989 and 1990 are recovery years. General Watts, do you see any additional funding problems surfacing during the remaining months of this fiscal year? What is the current value of your underfunded requirements, unfunded requirements? Could you describe some of the more important ones before the subcommittee?

General WATTS. Yes, sir. I think we have that and George Larson will give you the precise details, rather than my just fishing around trying to pull the numbers out. We have some unfunded requirements, must pay bills, that we are working with right now.

Mr. HUTTO. General Larson.

General LARSON. Sir, I will defer to General Finan.

Mr. HUTTO. OK. General Finan.

General FINAN. Mr. Chairman, we have three primary bills that we still are facing in fiscal year 1989. The primary one is the CHAMPUS bill for about $99 million that results from a change in the CHAMPUS methodology, the catchment area methodology.

Mr. HUTTO. I know CHAMPUS, year after year we have to do reprogramming for all the services. In the last few years, what have been the figures? $90 million you say for 1989. What was it last year, do you recall?

General FINAN. It was around that same figure, sir.

The primary driver in 1989 though is more of a transfer between services rather than total growth. It is a recalculation on how you determine the service share of the CHAMPUS bill. That is the primary driver of the $99 million.

We also have about $95 million of civilian pay raise requirements. As you recall, the Air Force, as are all the services, was forced to absorb 50 percent of the pay raise. We had a 4.1 percent pay raise and we had to absorb half of that, and a foreign currency fluctuation requirement of about $106 million.

So, this Committee and the other Committees will probably be seeing some reprogramming actions to cover those requirements later on in the year, sir.

Mr. HUTTO. Do you have any idea what functions will be reprogrammed?

General FINAN. Not specifically, sir. But, it will be coming primarily out of the investment accounts.

Mr. HUTTO. OK.

General Watts, what, in your view, are the Air Force's overall readiness levels? What do you estimate they will be under former President Reagan's budget and in the forthcoming 1990 request, which is 2 percent below the Reagan level? What are the Air Force's overall O&M funding priorities for fiscal 1990 and 1991?

General WATTS. Well, we are looking again at 1990 and the so-called readiness support areas, Mr. Chairman. Recall that in 1989 we made a concerted effort to beef up our flying hour program and also the depot maintenance account. What we did in 1989 was bring our flying hours up to a level that we had achieved in 1987.

The flying hours are one way to measure the effort that we are devoting toward maintaining our combat capabilities. Now, we will continue that press into 1990 and 1991. Our plan and our budget request reflects maintaining our flying hour levels.

The total associated with the flying hour program will go down in dollars. But, the number of hours per crew member per month will stay the same. The reason the dollar figure goes down is: One, the force structure draw down is reducing the number of flying hours in some cases. Two, the fuel prices, at least right now assume fuel prices for 1990 will decrease. So that, in turn, brings the fuel price down.

Again, I come back to the readiness support areas, our BOS request. We are asking to beef up funds that we need for maintaining our bases and also real property maintenance and repair accounts. Because that is where we took a real big dip in 1988 and we still did not fully recover that in 1989.

When you ask me to make a general statement about readiness levels, I want to emphasize to the members of the Committee that today our readiness indicators are at equal levels that we have seen in this decade. What we are striving to do with the budget that we are presenting to you now is to maintain and not see a great diminution in those readiness indicators. I would be less than honest to tell you that there will not be some dip. But, it is not going to be that perceptible, I believe.

Mr. HUTTO. All right. Mr. McNulty.

Mr. MCNULTY. No questions.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. General Watts, talking about this combat capability, with your given force structure you say in your statement that you have minimum acceptable funding for that purpose. But DOD is proposing a reduction in the number of exercises. Do you feel that you can retain your current level of combat readiness with a reduced level of exercises in the coming year?

General WATTS. Well, that is a good question. At this point in time I do not have visibility into the exact reduction in those exercises. We depend on the exercises to give our youngsters the experience needed to either deploy to Europe or as we have currently going in Korea in our Team Spirit. Certainly if there is a large drop off in our exercises, we will feel some impact with regard to being able to give our crews and our maintenance personnel the kind of experience we need.

[The following information was received for the record:]

EXERCISE FUNDING

In December 1987, the commanders of the unified and specified commands were asked, in view of the large Gramm-Rudman-Hollings reductions facing us at the time, to lower the JCS Exercise Program to the minimum level required to maintain readiness. They agreed to a 5 percent reduction to 74,000 C-141-equivalent flying hours. These flying hours, as a measure of readiness, are used to carry our troops and equipment to the exercise locations. Fewer flying hours will mean fewer participants in exercises and could mean cancellation of one or more exercises. We, of course, will try to mitigate the effects of any reduction, by combining training wherever possible, and by training "smarter." For example, distributed war-gaming efforts and the REFORGER Enhancement Program will use computer simulations to increase training to our battle staffs while the majority of ground troops will concentrate their training at realistic "live-fire" training areas. Any decrease in exercise funding will have some impact, although just how much to the Air Force remains to be seen, because of the joint nature of the exercise program.

Mr. LANCASTER. How much decrease in exercise funding can you accept without having an impact on readiness?

General WATTS. I will have to provide that for the record, Mr. Lancaster.

Mr. LANCASTER. Also in your statement you request relief from the ceiling on MWR appropriated funds. It is my understanding that that ceiling was imposed in lieu of implementing guidelines on controlling revenue generating activities. I am familiar with how this cap has impacted on getting our retail consumer items to Europe. I wonder if you could address some other problems that the cap is creating for the Air Force.

General WATTS. Well, the issue on the ceiling, recall that we do not make as specific budget request for "MWR." The ceiling is a provision that tells us that we can only devote so many of our O&M dollars to the MWR type activities, as you well know.

This year I believe, and John correct me if I am wrong, but I think in 1988 we came within about $10 million of a ceiling of $356 million. Now, that was before we moved and shifted the emphasis for category A and category B activities to our appropriated funds, which is the of Congress. Maybe, Mr. Lancaster, what we are going to have to do is fall back on and start specifically budgeting for those category A and B activities in the appropriated arena.

Now in the meantime, you know that we are in a transition period. We are going up to, I believe it is September 30 of 1990 before we fully go into the new system. So right now we are kind of transitioning between.

The point I am making with the category A and B activities, could cause us to bump up against that ceiling. Now, the way we are assuming the ceiling, and I reckon Mr. Leath would address this later at one of his panel hearings, but we are assuming that the ceiling will increase by the amount of inflation that we experience. That is our going in assumption right now. We have not assumed anything else.

So, we are still trying to figure out if that ceiling in the Air Force, I can only speak for the Air Force, when we go totally into the category A and B activities funded substantially with appropriated fund support, whether that is going to push us up past that ceiling.

If it does, we will come over and talk to you and ask you. If you all say, yes, we can help you, or no, then we will have to fall back and regroup.

Mr. LANCASTER. At a hearing last week in another subcommittee that I am on, Military Personnel, a witness from Air Force Reserve or National Guard, I frankly can not remember which one, said that they were having a real problem in attracting and retaining civilian plane maintenance technicians because of the low pay. He went on to say that the President's proposed 2 percent pay raise for civilians was going to exacerbate that problem. Is the Air Force active side confronted with similar problems either with civilian personnel or in attracting the kind of quality mechanics that you need into the active duty force?

General WATTS. At this point, and keep in mind that I am looking at this from kind of arm's length, I am not hiding from the question but I am not the expert, but at this point I believe that our quality of recruit is equal to what we have experienced over the past 5 or 6 years. We are getting the top-notch high school graduate to come into the United States Air Force.

Now, in my judgment it is very difficult to determine at what point these suppressed cost-of-living pay increases I call them, at what point does that start impacting on what the youngsters are going to do with regard to whether they raise their right hand to come onto active duty with the United States Air Force and whether they want to stay in the United States Air Force after they are with us. But right now we begin to see, the personnel experts are telling me, that we are beginning to see some warning signals. But I am not going to tell you right now that the sky is falling. I am going to tell you that our people and our recruits are still coming and we are still getting top-notch youngsters.

Mr. HUTTO. Mr. Ray.

Mr. RAY. Thank you, General. It is good to have you here this morning, all of you. I have a number of questions. I might just mention a few of them and then have you comment for the record on those that you can.

The first deals with the defense environmental restoration account. Some of you are familiar with that particular account. Can you estimate the amount of O&M funds, other than DERA funds, which the Air Force will spend in order to comply with environmental laws in 1990, fiscal year 1990?

General FINAN. Yes, sir. Mr. Ray, we spend about $110 to $120 million in environmental compliance other than the DERA money. That is about what we are projecting for fiscal year——

Mr. RAY. You are projecting this for 1990?

General FINAN. Yes, sir.

Mr. RAY. OK.

General FINAN. In fact, one of the additions in the support area that General Watts addressed earlier, in the real property maintenance area, we specifically took action to put $50 million more in both 1990 and 1991 for environmental compliance.

Mr. RAY. Good, that is fine. The environmental panel is drafting legislation which will be introduced shortly that would require the Department of Defense to develop a method for tracking what it costs each of the services to comply with environmental laws and report these requirements to Congress annually when the funding request comes over.

Now, the reason for this is that various committees and other persons complain that DOD is not spending enough money. We happen to know that they are spending a considerable amount of money and that this simply enforces the records in their particular case. Do you think the Air Force will be able to provide this information on environmental requirements versus funding and how difficult will it be to develop that data? Would there be any concern with the Air Force to help track this?

General **Finan**. Sir, we think we can do that with minimal problems. In fact, we have already started taking action to develop costing procedures within our accounting systems to track environmental compliance. So, I think we are in full agreement with you and are stepping out toward that end.

Mr. **Ray**. This is about a $20 billion problem on several thousand sites on about 600 defense bases. It is going to take a lot of years to correct. We are disappointed that DOD has, in our opinion, funded it way short this year.

I am going to submit the balance of these questions for the record. But let me ask General Watts one other question.

[The following information was received for the record:]

AIR BASE OPERABILITY PROGRAM

As you are well aware, the Air Force received significant O&M reductions as a result of the economic budget summit agreement. We also had to absorb several large costs such as fuel price increases and civilian health benefits. The result was that fiscal year 1988 was a lean year for the Air Force and its commands. The timing of the approval of the fiscal year 1988 appropriation bill (late in December) coupled with the large reductions ($1.7 billion) forced the Air Force into some difficult decisions. Many contracts and commitments had been executed and could not be reversed without severe penalties. In order to pay critical functions such as civilian pay, utilities, maintenance supplies, etc., commands had to reallocate funds from areas where some degree of flexibility remained. As I said, difficult decisions had to be made. As you may remember, even with these actions, you still had to approve a fiscal year 1988 reprogramming into the Air Force in Europe (USAFE) did have to reprogram some of the $20 million fiscal year 1988 Air Base Operability (ABO) funding to "must pay" requirements, the amount for fiscal year 1989 has not been fully determined.

In fiscal years 1988 and 1989, Air Force headquarters programmed $20 million and $28 million, respectively, for the United States Air Force Europe for the Air Base Operability Program. However, of the $48 million budgeted, only a total of $8 million was spent on these programs. In view of our strategy for air superiority in getting the planes off the ground to protect the bases and the need to fly repeated sorties from our bases, what justification exists that permits you safely to reallocate these funds and on what type of programs was the other $40 million spent? Can you handle that without going to the record on it? Or, would you prefer to——

General **Watts**. Well, Mr. Ray, I will take a stab at it. I think I do want to provide you a full complete answer for the record.

By the way, for other members of the Committee, Mr. Ray was a gracious participant in a conference we had down at Robins Air Force Base, GA, back before the turn of the year. I appreciate your taking the time and interest to support us, Mr. Ray.

We talk about air base operability, the $48 million, I think we ended up, John, with about $8 million expended last year. Just the straight answer on that is that due to various reasons, not the least of which was constrained O&M appropriations and the foreign currency fluctuation of the exchange rates, the impact of the exchange rates on it, caused the Commander in Europe to use those funds for other readiness type activities.

I am not sure that everyone knows everybody's operability—things that go in the air base operability. But, they are for hardening defensive positions—John, what are some of the others?

General **Finan**. Yes, sir. If I might tag on to that a little bit. The specific dollar amount in Europe that was addressed is only a small portion of the total Air Force Air Base Operability Program. In total, there are almost $822 million in the Program. So the fact that in the O&M portion in Europe, that a small portion was reprioritized really does not have a major impact on the total air base operability.

As General Watts said, some other things that go into the Air Base Operability: the camouflage concealment and deception, the war time sortie recovery after the damage is done, that is rapid runway repair and things like that. So, they do have extensive requirements. We have about $27 million budgeted in fiscal year 1990 and 1991 for this. However, as General Watts indicated, 1988 was a bad year for the Air Force and the Commander had to re-prioritize to get must pay bills such as civilian pay and contract maintenance paid for.

Mr. **Ray**. Well, my time is up.

Mr. **Hutto**. Mr. Hefley. I am sorry, Mr. Ray.

Mr. **Ray**. I would just add a little footnote to that for the record. We have spent 40 years trying to get air base operability to be a priority. The $48 million did not come easy. It came and was, in my opinion, specifically earmarked for more of the defense plan than what you are talking about. We have been doing those things for a long time. You say the commander had the authority to do that without any further consultation? He did not have to come back to the Pentagon? We think it was an area of very bad judgment and we are disappointed that it happened that way.

[The following information was received for the record:]

Air Base Operability—Priority

As I stated earlier in the testimony, the reductions to Air Base Operability (ABO) came during a time of severe reductions to the Operation and Maintenance account due to pressure to reduce the budget because of deficit concerns. Programs that were initially identified at certain levels were reduced because "must pay" requirements had to be met. A long standing policy of the Air Force has been not to restrict our field commands except as specifically outlined in law or committee reports. To do otherwise places undue restrictions on our commands in an account that is very dynamic. ABO, like many other programs, suffered when the $1.7 billion of fiscal year 1988 congressional reductions were made. These were tough decisions, but were made with full knowledge of what would not get done. Additionally, the actual amount that will be spent in United States Air Force in Europe (USAFE) for fiscal year 1989 has not yet been fully determined.

General **Watts**. Mr. Congressman, I will take a look at it and I will give you something back.

Mr. **Ray**. OK. Thank you.

Mr. **Hutto**. Mr. Hefley.

Mr. **Hefley**. I have no questions, Mr. Chairman.

Mr. **Hutto**. Mr. Bilbray.

Mr. **Bilbray**. Yes. General, I would not get so parochial on the question I am going to ask you, but I understand that some of my people from Las Vegas have talked to you, or your office, in the last few days.

[The following information was received for the record:]

Discretionary Fund

Munitions delivery has been by truck rather than rail for many years because it is cheaper, safer, more responsive, more flexible, and more compatible with the smaller size of our shipments. Most of our bases either do not have rail service or rail off-loading facilities and handling equipment. Even though Nellis has an AFLC munitions storage depot, commercial trucking is the preferred method of transportation. The trucks can deliver munitions directly into the secure storage areas where they are unloaded directly into the bunkers. Therefore, the explosives are handled only once in a secure, safe environment. Intermediate transfer of munitions through the city of Las Vegas should not occur in the future. There are no plans to reconstruct the railroad spur.

Several years ago, floods in the Las Vegas Valley washed out a spur line to Nellis Air Force Base that carries various commodities. I will not go into what they were, I do not want to cause any panic, but that was washed out. Since that time, the goods have been going into Las Vegas and then being taken back either by truck or some other method into the Air Base.

I understand that under your discretionary fund this could be repaired. It certainly is a few hundred thousand dollar project that is of great interest to our District in the southern Nevada area. Are you familiar with this particular problem?

General **Watts**. No, sir. I will have to get into it. I will get you an answer on just what the status is of why we have not——

Mr. **Bilbray**. You have discretion for any projects under $1 million to authorize those to be——

General **Watts**. Yes, sir. It depends on the priority that the installation Commander puts on it.

[The following information was received for the record:]

Railroad Commodities

The Defense Terminal Facilities guide was amended on March 23, 1989, which notified DOD shippers that rail service was not available at Nellis AFB. Railroad transfers were infrequent and occurred only when a shipper did not know the Nellis spur had been closed for 5 years. On February 28, 1989, the Nevada Department of Transportation sent a letter to Nellis AFB advising that the rail line feeding the Nellis spur was being closed, and asked if there were any objections. The Installation Commander is preparing a reply stating that there are no plans to use or maintain the spur; therefore, there is no adverse impact.

Mr. **Bilbray**. So, the railroad spur from the general Union Pacific line into Nellis Air Force Base that carries certain commodities was washed out, I understand, several times, and I guess it is probably a headache out there as to what to do. It is of great concern to the people of my District.

General **Watts**. I will take it and I will get back to you, sir.

Mr. **Bilbray**. Thank you. That is the only question I have.

Mr. **Hutto**. Mr. Leath?

Mr. **Leath**. Thank you, Mr. Chairman.

General Watts, good morning.

General **Watts**. Glad to see you, sir.

Mr. **Leath**. General, in times of plenty, as I suppose we probably went through from 1981 until last year, I suppose that an argument can be made that we can stretch regulations a little bit sometimes. I also recognize that you have a very large operation world wide and that you cannot always totally oversee every activity and make certain that people live within those regulations.

But, there appears to be an increasing number of news stories coming out now on what appear to be somewhat flagrant abuses, or at best I guess we could say poor judgment on the part of certain Commanders around the world. The subcommittee has observed that in a number of cases. The Air Force has used repair and maintenance dollars to virtually construct new facilities. In one instance, a club in Germany at Ramstein Air Base was almost built from the ground up at a cost of $13 million and was called a repair. We are aware of other major additions to clubs in the millions of dollars that are also called repairs. Isn't this skirting the regulations, to say the least? Does the Air Force have any control or oversight to prevent it in the future or to identify such abuses?

General **Watts**. That is a fair question, Mr. Leath. I am not going to duck it. I will though have to limit my comments to what I have knowledge of. We talk about judgment with regard to categorizing something as repair versus construction. I cannot address the specific instance that you raised. DOD IG, I think you are aware, is looking into that particular one. Their report has not come out yet.

I can address the entry of me coming on the scene. As you know, Mr. Chairman, I work with Mr. Leath in another hat that I wear as Chairman of the Board of Directors for the Army/Air Force Exchange Service and am concerned with his MWR panel. We get great support for the Exchange Service. I also now in recent times have been added to the Air Force MWR Board. I am not the Chairman of that Board. But, I am Chairman of the Finance Committee.

Mr. Leath, what we have instituted is, within the Air Force we have instituted a process and I think we have probably put some rigor into it. I am not saying that there was not rigor before. But we have put rigor into the construction program, if you will, or the repair program, if you will, for major nonappropriated fund activities.

These various projects that at base level wind their way up through the command structure and end up at the MWR headquarters at Randolph Air Force Base, Texas. The non appropriated funds staff, the MWR staff there, the engineers down there, review and look at the various proposals. They have come up with a means of evaluating requests. As you know, a buzzword is "business like" approach to doing MWR business. That is part of the evaluation that the staff at Randolph goes through.

Then, prior to a project going to the MWR Board for approval, it has to come to the Finance Committee. The Finance Committee is composed of about five people, me as the Chairman. Again the case is presented. It is not dissimilar to somebody coming over here with a budget request for a project on reprogrammings.

So, we go through and we look at the need, we look at not only the need but the requirement, then we look at the revenue generator, we look at the return on the investment type activity. Then the committee will take a vote on whether or not to proceed—or recommend to proceed or not to proceed. Then that goes to the full Board. As a matter of fact, I am going to San Antonio this Thursday for a Board meeting on Friday. Several projects will be looked at. Is any system fool proof? I do not know. But I must tell you that I am fairly comfortable right now with the review process that we have. I believe that will tend to minimize any so-called "cases." If there has been poor judgment I think this will tend to minimize the chances of that occurring.

I do not know whether that answers your question. That is about the best I can do right now.

Mr. LEATH. Mr. Chairman, I have two other questions I would like to submit for the record.

Mr. HUTTO. All right.

Mr. LEATH. Thank you, General Watts.

Mr. HUTTO. Thank you, Mr. Leath.

General Watts, we indicated earlier that, of course, you are basing your budget on what has been submitted, and that was by President Reagan's administration. Has the Air Force been given any guidance, or have you arrived at a new total target figure, for the Air Force O&M that is most likely in line with what President Bush wants?

General WATTS. Mr. Chairman, you kind of put me in a ticklish position. So, I am going to answer you as Bud Watts, if you would permit me to do that.

Mr. HUTTO. Absolutely.

General WATTS. We have been given some adjustment numbers or some adjustment guidance by the Acting Secretary of Defense. Basically what he told us, and I think it has been in the newspapers, or if it has not somebody can string, draw me and quarter me, but basically what they have told me was that we should look to pull $2 billion out of the Air Force budget request that we have currently pending. We have gone through an agonizing process of adjusting that. That is being worked now by the Office of the Secretary of Defense staff.

I really cannot go much beyond that, other than to say that we are continuing to emphasize readiness and we are continuing to emphasize operation and maintenance. That is not to say that it will not be a nick here or there. But I think I can in good conscience tell the subcommittee that you are not going to see a whole lot different in what we have on the table today.

Mr. HUTTO. Not a great deal of difference. So, you could not put a percentage?

General WATTS. That is my judgment, sir, today. Admittedly, there are still a couple weeks of activity with OSD to go through. So, we will not know for sure for at least another 2 weeks, maybe 3 weeks.

Mr. HUTTO. Well, that is encouraging, that readiness would be stressed and O&M funding would be emphasized. You feel pretty comfortable at this point?

General WATTS. Yes, sir. I say that speaking as an Air Force representative. Because as you highlighted in your opening remarks, we have made force structure reductions. So, as long as the national policy and the national strategy remain unchanged, we have an obligation to be able to perform tomorrow or today the tasking and the various plans that are on the shelf.

We cannot afford to turn our back on that. I think that is—whether other people would say it in those words, that is how I explain where we come down on O&M and our commitment to maintaining today's readiness.

[The following information was received for the record:]

Funding Source for MWR Facilities

The Air Force has requested $15.4 million in fiscal year 1990 appropriated funds for facilities at Crotone; $8.4 million for recreational facilities and $7.0 million for a portion of the cost of an air-to-ground training range.

The cost of the air-to-ground range to support the 401st TFW wartime training and readiness requirements is being jointly shared by the United States and Italy. In NATO, training forces provided to the Alliance are historically a national responsibility. Italy agreed early in bilateral negotiations on the issue to equally share the cost of a new range to meet day-to-day training requirements of the 401st TFW and Italian units based in Southern Italy. Joint range ownership, vice a NATO-funded effort, will allow the 401st sufficient priority on the new range to ensure critical unit training objectives are met.

We are requesting appropriated funds for some of the recreational facilities based on an agreement in principle reached between SECDEF Carlucci and key members of Congress prior to the May 1989 NATO DPC Ministerials. Secretary Carlucci was authorized to offer U.S. funding support (approximately $12 million) for recreational facilities at Crotone to seal NATO agreement to fund other base facilities not traditionally funded by NATO.

Concerning the recreational facilities, the DOD funding policy for community facilities states that appropriated funds may be used in lieu of nonappropriated funds for community facilities when related to activation of a new installation or for replacement of facilities denied by country-to-country agreements. The DOD has chosen to request appropriated funds only for nonrevenue generating facilities.

These recreational projects are typical of those types of facilities found on Air Force bases throughout Europe. They are critical quality of life facilities for military members and their dependents, and similar, typically American, facilities do not readily exist in the off-base surrounding communities.

Mr. HUTTO. Let me ask you about having to move our unit out of Spain. Why has the Air Force requested $15.4 million in fiscal year 1990 appropriations for various MWR facilities, the proposed new NATO air base at Crotone, Italy? Shouldn't the funding source be NATO construction funds or U.S. nonappropriated funds?

General WATTS. Sir, the agreement—and I really need to give you the full answer for the record. But, the agreement with NATO, and we were responding to a NATO requirement, NATO by agreement will fund the mission related facilities and structures. There are certain MWR nonappropriated fund activities or buildings to support those activities that are not included in that NATO agreement.

The question then becomes, do we use nonappropriated fund dollars to build those kinds of facilities, or do we use appropriated funds? In times past, in kind of what we call isolated areas or that sort of thing, we have traditionally gone back and asked for the appropriated funding. There is precedent for doing that. That is where we are coming from on this.

I will give you something specific for the record.

Mr. HUTTO. All right, sir. If you would.

What is the status of the design efforts for the Base Master Plan and specific facilities in the acquisition of land needed for the new NATO air base there in Italy?

General WATTS. I will have to give you that for the record.

[The following information was received for the record:]

DESIGN EFFORTS

A User Requirements Package will provide the U.S. facility requirements, conceptual base layout and facility siting plans for the new base. The User Requirements Package is a contract effort being provided by the civilian architectural and engineering firm of Black and Veatch. The contract was awarded on October 10, 1988. Estimated completion of the contract is the end of May 1989.

The land acquisition for Crotone is a responsibility of the Italian Ministry of Defense. Once final base boundaries have been determined, the Italians will proceed with the expropriation process through their judicial system.

Mr. HUTTO. All right. If you would, please.

Mr. Ortiz, do you have questions for the witness?

Mr. ORTIZ. Thank you, Mr. Chairman.

Going back to the question that the Chairman had. You said that you were requested to take out $2 billion?

General WATTS. Yes, sir.

Mr. ORTIZ. Were those moneys already on the planning stages? If so, what were you going to use that money for?

General WATTS. Well, sir, our budget is here today. Our total budget request was for $100.5 billion, in round numbers, for 1990. Our fiscal guidance was that we had—the Air Force had to come down $2 billion.

Until the budget is presented, I really cannot go into—I am not quibbling with you, sir. I just literally am not at liberty to go into what adjustments.

Mr. ORTIZ. Let me go another step further now. What will these monies do to your sustainability, I mean as far as parts and equipment, by not utilizing these $2 billion that you were planning on using? What will this do as to the length of time that you can sustain in case we go into war?

General WATTS. Well, Mr. Ortiz, one of the issues that we are facing is trying to maintain that balance as we bring $2 billion out of our original budget request. As I tried to allude to earlier, right now I am reasonably confident that we are going to maintain our emphasis as you see it in our budget request, with regard to our readiness ability, our spares and that sort of thing. That is about as much as I can say right now.

Mr. ORTIZ. Let me ask you another question in another area. How is the Air Force doing on contracting out? What experiences have you had as far as contracting out some of the services?

General WATTS. Sir, that is a great question. I am glad you asked me that question. I am going to tell you that the experience has been mixed. There are some great examples of how contracting out has served us very well. There are other examples where contracting out has probably caused us some heartache and pain.

One thing that we must remember, when we contract out, when we use the A-76 formula, once we commit to the formula where we are pricing out in-house versus contracting out, once we do that, once we determine that we are either going in-house civilian or we are going to contract out, the military personnel come off the rolls, the dollars come out of the military personnel account, but the cost goes into the O&M account, the things that you are concerned with here in this Committee. So, we see a growth in O&M.

So, if people want to ramp manage Air Force O&M accounts simply by saying, well, you had $23 billion in 1990, and then you go up to $24 billion in 1991, because we contracted *x* number of things out and you throw in inflation on that, somebody said, well, that is too big an increase because your force structure came down.

But what people did not consider was what caused the perturbation, what changed as far as the way the Air Force is being run and operated. If you change from blue suits, yes, you are bringing down your MPA account. But at the same time you are building, for the life of a program, you are building a cost, a must pay bill, in the O&M account.

Mr. ORTIZ. We look at the cost. Another area that we need to look at is the readiness. I think that some of the people who are working, for example in-house civil servants, they have kind of a commitment to the military because they are civil service employees. Now, what about those who do not have any type of commitment because they have a commitment to the people, a company maybe, outside. Has this affected any of that? As we look at the big picture, what will it do to our readiness by contracting out some of these jobs?

General WATTS. Mr. Ortiz, there are a couple of things to say. Intuitively I want to agree 100 percent with your comment. Intellectually I would say that I am not going to agree with you totally. My heart says yes, but intellectually I say no. You have to ask yourself the question, what are you contracting out? So we try to look carefully at the things that we contract out. That is number one.

But if I say that, you are going to say, well, you are not being fair because we have got patriotic Americans who want to work for a contractor and come in and do defense work as a contractor as opposed to being a career civilian employee. But I have to be careful there, otherwise I poke my finger in some patriotic American's eye.

Mr. ORTIZ. Sure.

General WATTS. As you know, in Air Training Command we have some contract maintenance facilities. I mean we have contractors providing maintenance for our T-38 operation at Sheppard, for example. Enid, Oklahoma is another one.

Mr. ORTIZ. Yes, sir.

General WATTS. So, it is just not an easy clear-cut issue that you can answer yes or no. I think that is an honest answer.

Mr. ORTIZ. I understand, General.

Mr. Chairman, thank you very much.

Mr. HUTTO. Thank you, Mr. Ortiz.

Mr. Machtley.

Mr. MACHTLEY. Thank you, Mr. Chairman.

I apologize for not being here for all of your presentation.

I have an interest in the real property maintenance accounts for all services. It is an easy one to say, let's slide it. It is an easy one to pull money out because it does not account for flight hours in readiness. You cannot say that we are going to be C-5 because the buildings are deteriorating a little bit. I wonder if we are not, in the long term, going to spend more dollars because we are neglecting our bases, particularly in the Air Force's case. If you are going to have to cut out $2 billion, will you make sure that real property is going to be taken care of?

General FINAN. Sir, obviously in the O&M account, as you well know, the real property maintenance area is one of the few areas Commanders have to exercise flexibility when they go through a funding drill. It is one of the first areas that is normally cut because an awful lot of it is contract work for big facility projects and the tendency is to slip that from year to year.

In doing so, when we have a bad year such as we had in fiscal year 1988, an awful lot of that facility maintenance was slipped and deferred. However, I must say that over the years Air Force has done an outstanding job of supporting its facilities. I think if you go to most Air Force bases the facilities are in good condition. We are making an attempt to keep those facilities in good condition because those are the places from which we fight.

So, it is a mixed answer. Yes, it is often cut and deferred when we have a budget drill. But still we like to keep a balance there and we think we keep the minimum amount required to maintain facilities adequately. Not up to the extent that we would like to. We do have a backlog.

Mr. MACHTLEY. I think we need to just make sure that we do not miss the critical issues. Five years from now when funding is still going to be a problem, I am concerned that we find the services coming in saying, we have a critical problem. We all go out and look at the hangars and we look at the base facilities and say, you are right. It is because we let it slip too much. So, I hope that you will keep that as a priority so that we do not find ourselves in that situation.

General FINAN. Certainly will, sir.

General WATTS. It is a tough issue for us and you put your finger right on the nub. That is the kind of thing that is easy for somebody to walk in and say we can slip this a little bit. We think we have got a reasonable system that identifies those items that need that systematic repair.

Mr. MACHTLEY. Thank you, Mr. Chairman.

Mr. HUTTO. Thank you.

Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman.

General Watts, I think you have got the toughest job in the Air Force in the few years ahead.

Secretary Weinberger came before the committee in November and made the statement that with a frozen defense budget plus inflation for the next few years, we are looking at a cancellation of many of their projects in the pipeline, $172 billion there. Plus, no doubt, some force reduction. I assume from all that he said too, we would be looking at a new defense strategy if that occurs.

But what I want to ask you this morning is following-up on the Chairman's question about the F-16 wing being transferred from Torrejon, Spain to Italy. First of all, I am going to make some statements and you can refer to them or either answer them in the record, or part of both. First of all, I understood that we intended to move that wing into the reserve forces in this country, until NATO decided that they would like to keep it there and would underwrite the expense of it. As I understand it our share of the NATO expenses is about 28 percent.

Recently, portion of the Readiness Defense Subcommittee visited Spain. We had a pretty high-level briefing from the State Department and from some people representing that particular air force base at Rota, Spain. Some things that came out of it were that the Italians would like us to move to a remote part of the country which is not developed. They mentioned that the cost of running utilities into that part of the country would be very expensive. The word that we received was that the cost of that land in this remote area has gone to $10,000 per acre. In addition to this, Air Force would like to move other supporting units, as I understand it, to this particular location also.

The host country, we understand, is not interested in providing protective services for the space. We will need to house 10,000 people on the base. The base is in the Communist part of the country. Some members of this committee have been in that part of the country and we have the hammer and sickle plainly up on the telephone poles and things of that nature there.

The estimated cost, or maybe our cost, which came out of that meeting was that we could spend as much as $2 billion taking care of other supporting units and the extra costs that it is going to take to move into that remote area.

So, thinking about the former Secretary's comments about the fact that we, most likely, are going to have to look at force reductions over the next decade, not many members of this committee are interested in reducing them at Robins Air Force Base and bases around the country. It would seem to me that this is an opportune time to take advantage of just going ahead and moving this facility back into the United States.

For the record, we understand also that the Spanish Government is not very friendly toward us, particularly in some of the contracts probably negotiated by the State Department. We have to employ 60 percent of all Spanish people on these bases, and we have to give them cost-of-living increases whenever the government wants it. Sometimes that cost-of-living increase, I understand, is retroactive back as much as 6 months, sometimes back a year, which puts a heavy drain on the operation and maintenance expenses there.

We have no control over those workers. As we leave Torrejon we are going to have some severe, practically lifetime, severance pay that has to be paid into the fund for these people.

Mr. KASICH. Mr. Ray, would you yield?

Mr. RAY. Yes, I will. I am finished anyway. But anything that you want to put back into the record, and a personal answer, would be fine.

[The following information was received for the record:]

FOREIGN WORKERS COST OF LIVING

Compensation for foreign nations is dependent upon country to country agreements that are negotiated by the State Department. Foreign national cost-of-living increases are based upon these various agreements. At the present time there are more than fifteen different systems in Europe and the Pacific for our foreign national employees.

Mr. KASICH. I wish you would just explain that one more time. You are saying we have to pay foreign workers cost-of-living increases when they want it?

Mr. RAY. That is exactly right. In Rota, Spain, for instance, the Navy spends thousands of dollars each year just for transportation. We go out into the country, we pick the workers up, we bring them to the base. If they decide that they would like to be sick or are sick for 3 or 4 weeks, we have no jurisdiction over that whatsoever. We pay their cost-of-living increases. We pay a retirement fund every month into the Spanish Treasury, which I assume the workers eventually get also.

Mr. HUTTO. OK. Did you have a question to them?

Mr. RAY. No, I just wanted the General to respond by either putting—have it researched and put into the record.

Mr. HUTTO. OK.

General WATTS. Mr. Ray, I will give you an answer for the record. But you raise a good point that gives me an opportunity to make a point, and you touched on it. Because it is not just a part of the United States Air Force, but the Navy and the Army too, a tremendous problem in our O&M accounts overseas.

While the Congress has said that they do not want us paying overseas workers cost-of-living increases in excess of those that we pay United States workers in the United States, that is fine, but we are governed by Status of Forces agreements with the nations in which we are living. We literally do not have any choice. If the pay in Turkey goes up 10 percent, for example, we have no choice but to make that payment; we increase the Turkish pay 10 percent. If we are down in Spain, as you aptly pointed out, we have no choice but to pay the 6 percent or whatever the cost-of-living increase that the government dictates might be.

On the other hand, we are talking about a 2 percent civilian pay increase in 1990. So, we are budgeted at the 2 percent level for our overseas workers. Anything above that 2 percent we have to find the dollars to make up, because we just simply do not have any choice.

We cannot lay off the workers. We literally do not have the ability to lay off the workers. Part of the reason, as you say, you have tremendous severance problems. So, we really have a tough one.

Now, we do have to provide the Congress notification when we have to exceed that 2 percent. We have to come over and tell the Congress we are doing it. But, they know and the Senate knows that we do not have any choice.

Mr. RAY. I was surprised to find that frequently it is retroactive, which is another severe shock.

General WATTS. Yes, sir.

Mr. RAY. If we are looking at 10 percent, then all of a sudden the government says its got to be retroactive back until the middle of last year.

General WATTS. Yes, sir, because probably we could have been in negotiations for 6 months.

Mr. HUTTO. Mr. Hefley.

Mr. HEFLEY. General, you know I am new to this committee so I know this is kind of a dumb question. But, who made those kinds of idiotic agreements for us to have bases there? Was that the Air

Force, was that the State Department, was that the Defense Department, who did that negotiating for us? Because whoever it is would be flat on his backside broke if he was in private business and he negotiated that way.

General **Watts**. Mr. Hefley, the honest answer is I do not know. I believe it is in the State Department's hands, because the State Department is running the base negotiations in both Greece and in Spain.

Mr. **Hefley**. I see.

Mr. **Ray**. Let me just say, I think it was pretty well pointed out——

Mr. **Hutto**. Mr. Hefley, do you yield to Mr. Ray?

Mr. **Hefley**. Yes, I yield.

Mr. **Ray**. Excuse me, Mr. Chairman.

That the State Department does enter into those negotiations and sometimes they are done so without a great amount of negotiation with the DOD.

Excuse me.

Mr. **Hutto**. Mr. Bilbray.

Mr. **Bilbray**. Yes, I wanted to go back on this same question. At Torrejon, when they are going to be moved out, do we still have to pay the severance pay to the workers, the Spanish workers, even though the Spaniards kicked us out?

General **Watts**. As I understand it, there are certain vested rights over there. I will have to give you the specifics on it, but I believe that is correct.

Mr. **Bilbray**. Thank you.

[The following information was received for the record:]

Severance Pay Law

Our legal office has determined that your bill limits the amount of severance pay paid by the contractor to foreign nationals employed by the contractor under a service contract performed outside the United States. The law limits payments to the customary or prevailing practice for firms in that industry providing similar services in the United States. This limitation does not apply to our indirect hires Torrejon AB, Spain since they are not contractor personnel.

Mr. **Hutto**. OK. Mr. Kasich, do you have some questions?

Mr. **Kasich**. Yes, Mr. Chairman.

First of all, General, I had a bill that passed last year that changed the whole severance pay law. You ought to check it out. It says that we will not pay severance pay to foreign workers in excess of what we pay our own people.

You might remember, Richard, when we had that problem over in Japan with those bank employees. They were getting, I do not know, $200,000 or something. So, the bill is passed, it is now law. General, I would appreciate it if you would check the law and tell me whether it covers your problem there. Because it should. I just never know how these things are interpreted once they become law.

I have two questions. I was not going to ask them, but I kind of feel as though I should. What about the $3,000 on the lavatory fixtures and all that stuff out at Sawyer? You know what I am talking about? A twenty-four carat gold-plated lavatory?

General **Watts**. I saw an audit report and I have not even absorbed it, Mr. Kasich.

Mr. **Kasich**. Well, I wish you would check that and let me know how that happened. I do not want to beat on you about it. I just want you to find out how anybody could be so absent-minded. That is beyond me.

The other thing is this golf course. They spent $3 million out of appropriated funds. I am not against golf courses. I like golf, I like golf courses, but it says that $3 million put carp in the pond, ball washers—I do not know if the ball washers were gold-plated—but ball washers, carp for the pond, million dollar water hazards and then use a special combat construction flash team to build bridges over the water hazards. Now, would you check that out General, so we can find out what is going on here?

General **Watts**. There was a DODIG request to our audit agency and it is in the hands of the Air Force auditor right now. I saw that same article just the day before yesterday, I believe. So, if you would permit me——

Mr. **Kasich**. Find out what is going on and how it ever could have happened. I mean that is just the kind of stuff we obviously have to avoid.

Let me ask just one other question to maybe all of you because you are all involved. The Status Of Forces Agreement came about after World War II. We negotiated a series of agreements with foreign governments. Many of the provisions worked to our benefit and many provisions worked against our best interests. The question is now, after 40 years or 35 years, or whatever, of having a Status Of Forces Agreement, on balance does this now work to help the United States or hurt the United States?

I am now convinced that it is time for the Congress and maybe even the subcommittee to have a hearing and bring people in and let's take a look at what Status of Forces really means at this point. What does it mean in 1989 as opposed to 1949? I wondered what your view would be on the need to let people come up and talk about it and do a review of this whole Status of Forces question?

General **Watts**. If I might, first, and I am shooting from the hip.

Mr. **Kasich**. Sure.

General **Watts**. There are a couple of things. Number one, your suggestion to have people come talk about it I think has great merit. But, I think the Status of Forces Agreement in isolation probably is incomplete, I do not think that is enough. I think you are getting at the very hub of forward deployment policy. So, set that aside for now.

The other part of the Status of Forces Agreement—and, as you say, there are some great benefits to the United States to have status of forces agreements, not the least of which is the matter of jurisdiction over U.S. military personnel independence. Because, as you well know, in Turkey the Turkish laws are a little bit different than the United States laws with regard to various offenses.

So, we are protected to a degree with certain provisions of Status of Forces agreements. On the other hand, we are paying a very dear price economically with the foreign workers and that sort of thing. So, it is really a mixed bag.

But, as I say, I believe your thought about having a hearing has merit. But, it cannot be too narrowly focused because you will find yourself just walking down a blind alley with nowhere to go at the end.

Mr. KASICH. I was thinking, Mr. Chairman, maybe when we get through the budget process, we obviously do not want to do it in a narrow way because it does not reflect the total situation. But, maybe, it would be something worth looking at in the broad sense. Maybe we can even have them help us design how you would take a look at this. It is something worth assessing, I think. Something I do not think anybody in Congress has done in the last 25 years.

Mr. HUTTO. Thank you, Mr. Kasich.

Still on the subject of dealing with our allies. The Congress is increasingly advocating that our allies pick up more of the burden for national defense. There are various programs in place and being considered to have host nations offset the costs of the U.S. presence. When these funds are made available by the host nation, generally in their currency, how are they controlled and are these amounts included in your budget request?

General FINAN. I might address that, Mr. Chairman.

Most, or at least the great majority of the host nation support agreements I am aware of that impact on O&M, provide services in kind and really not involve the passing of currency. In other words, in Germany, where we have host nation support, they might provide some maintenance and repair support to us in lieu of something else as a contribution. However, we receive no direct currency infusion that we then control and can go ahead and spend.

Mr. HUTTO. OK. It's not mixed then with our budget?

General FINAN. No, sir, it is not.

Mr. HUTTO. But do you negotiate with them on what they are going to do and this sort of thing?

General FINAN. Yes, sir. They have different agreements for different areas and different kinds of things. I know of one agreement where there is a limit on six million Deutsche Marks a year. It will not be exceeded. They will provide up to that in maintenance and repair and construction service to U.S. Forces, and it is controlled that way.

Mr. HUTTO. Suppose you had a situation come up where you had to clean up some waste sites or something like that, would we automatically assume that or is there a possibility that we could prevail on them to do some of that?

General FINAN. I would think it would depend on the individual agreements for the individual areas, sir. I see no reason, if it is a maintenance and repair type thing and that is part of the agreement, that that could not be counted toward that. But again, it would depend on the individual agreements.

Mr. HUTTO. One final question before we conclude here. General Watts, I mentioned and you mentioned in your testimony about the active forces losing three B-52 squadrons, two FB-111 squadrons and one KC-135 squadron equivalent and two C-130 squadron equivalents to the Guard and Reserve. Can you tell us where these are?

General Larson, can you help us with that?

General Larson. Mr. Chairman, I will try. Some of them are more bits and pieces and they are distributed around the country. Regarding the B-52, also it is a little delicate in that some of these announcements have not been made in the budget years, for instance, in 1991.

Mr. Hutto. All right.

General Larson. In 1989, the B-52G conventional wing is coming out of Mather AFB, CA. Then there are bits and pieces in 1990 to take down another B-52G Air Launched Cruise wing. In 1991 there is a second B-52G Air Launched Cruise Missile wing deactivated. The two FB-111 squadrons will be transferred to the tactical forces, and the KC-135 and two C-130 squadron equivalents will go piece meal from many active units to the Guard and Reserve forces.

Mr. Hutto. Right.

General Larson. You have already addressed the original plan to deactivate the 401st Tactical Fighter Wing. It is now being transferred and in 1989 we were bringing down the 474th instead. In the budget years we further decrease from 37 to 35 Tactical Fighter Wings by bringing down one active equivalent and one Guard and Reserve equivalent. Again, it is not a unit per se, but different numbers from different organizations. So, it is not a complete unit being deactivated.

Mr. Hutto. All right.

General Larson. Does that help, sir?

Mr. Hutto. Yes, sir. I appreciate that.

General Watts, General Larson, General Finan, we thank you all. This has been a very good session. We appreciate your testimony and your response to our questions.

Before we close, Mr. Waters, did you have a question or two that you wanted to ask?

[The following information was received for the record:]

Agreement Between Germany and U.S. Air Force Europe

The CREEK SWEEP MOU with the FRG was negotiated by USAFE pursuant to delegated authority and instructions from the Office of the Secretary of Defense and the Department of State. The final text was reviewed and approved by OSD and State prior to signature. The authority for this type of Host Nation Support arrangement is contained in the recurring general provisions of DOD Appropriations Acts. In the fiscal year 1989 DOD Appropriations Act, the authority is in Section 8009. Under the CREEK SWEEP MOU, USAFE identifies projects to the FRG Ministry of Defense valued at 6.1 million DM. The FRG MOD contracts for those projects and U.S. Air Force contracting offices monitors the contracts to ensure the U.S. receives full value.

Mr. Waters. Yes, sir. I wanted to follow-up on your final question, Mr. Chairman. I am aware of an MOU between the Federal Republic of Germany and U.S. Air Forces Europe, where they provide us with six million Deutsche Marks annually. They provide that in services, so it does not show up in our budget authorization or appropriation in any way. But, those projects that are funded, how are they controlled by the Air Force? Would that be U.S. Air Forces, Europe's responsibility? Is that in accordance with the law?

General Finan. I would have to get you some information for the record on that, sir. I know the offset is there and what it provides for, but I do not know any more of the details and how it is controlled or monitored.

Mr. **Waters**. I am also aware that we have a cost-sharing agreement with the Government of Japan and the United States where the Japanese Government pays certain allowances such as housing and retirement for Japanese workers. Their fiscal year ends, I believe, in April. But last year the Air Force's share of that was $21.8 million. Does that go directly to the Treasury, or does that go back to the Air Force?

General **Finan**. No, sir, that covers payments of the foreign national indirect hires. The indirect hires are initially paid for by the Government of Japan, and then we pay a share of that depending on what they bill us. So, as they take on an increasing proportion of the cost, under the Japanese Master Labor Contract, they pay a higher proportion of that labor cost. So, our bill is subsequently less. Again, no currency transfers at all.

[The following information was received for the record:]

AGREEMENT BETWEEN GERMANY AND U.S. AIR FORCE EUROPE

In general, we do have various arrangements in which a portion of mutual defense costs are borne by our allies. Examples include logistic support agreements, cost-sharing for facilities maintenance and construction, leasing arrangements, replacements in-kind, and exchange of services. The following agreement is similar to the agreement cited by Mr. Waters.

PATRIOT OFFSET PROGRAM: The Patriot Offset Program is a payback for nonrecurring costs associated with the Dutch Patriot Missile buy. USAFE is receiving goods and services from this program. In addition, arrangements are being negotiated for War Reserve Materiel (WRM) storage and caretaker support at Dongen, Netherlands. This also includes vehicles to support COBs and lines of communication. These arrangements are negotiated through the American Embassy and the Dutch Ministry of Defense (MOD). The Dutch MOD administers all contracting actions and there is no transfer of funds to the United States Government.

Mr. **Waters**. Could you provide for the record any other agreements more in line with the one between Germany and U.S. Air Forces, Europe? Because that seems to me to be more of a problem. It may not come to the attention of the Comptroller's Office in certain cases.

Thank you, Mr. Chairman.

General **Finan**. Certainly will.

Mr. **Hutto**. Thank you very much. Again, thank you for being with us. We have other questions we will give you and would ask that you give us a quick response so that we can include this in the record. We thank you for working with us and we look forward to continuing to work with you.

The subcommittee will stand in recess until 1:30 this afternoon, when we will hear from the U.S. Army.

[Whereupon, at 11:30 a.m., the subcommittee recessed, to reconvene at 1:30 p.m., on this same day.]

Utah Test and Training Range

Question: The Utah Test and Training Range, the Eastern Space and Missile Center, and the Western Space and Missile Center are national assets operated by the Air Force under guidance received from the Department of Defense. The funds needed to operate these ranges includes O&M funds, other procurement monies, and reimbursements from other users, which amount to about $200 million in Fiscal Year 1990, or about 43 percent of the total.

DOD directives require that all funds not reimbursed by users are funded by the managing activity, in the case of these three ranges--the Air Force.

How does this reimbursement work, and is the Air Force being fully reimbursed for all costs incurred under reimbursable programs?

Gen Watts: Reimbursement policy for all DoD ranges and test centers is established in DoDD 3200.11, Major Range and Test Facility Bases. This directive outlines for which expenses each category of range customer will pay. For example, all DoD users only pay direct costs (expenses specific to the effort, including contractor and civilian labor, but not military labor), while non-DOD customers (except for commercial space launch and Foreign Military Sales) pay for direct and indirect military, civilian and contractor labor, supplies, equipment, fuels, and other identifiable costs, as well as overhead costs. NASA is different in that it negotiates a rate with the Air Force prior to each fiscal year, and is billed according to that rate.

Each range negotiates with the customer to determine requirements and then prices those requirements dependent upon customer type. Each effort is assigned a Job Order Number (JON) which identifies the specific task. All charges are allocated to a specific JON to provide both the range and the customer an audit trail of incurred expenses. These JONs are then used to charge the customer.

Customers are charged for aborts or cancellations of scheduled work. In the case of the Challenger incident, NASA paid a cancellation fee to help pay for the work which would have been incurred with continuation of the original launch schedule. When work is anticipated, but not scheduled (ASAT, for example), the ranges will seek new customers to offset their lost earnings, rather than require additional direct funding. In some cases where there are delays or cancellations of planned (but not scheduled) work, customers are charged a penalty to pay for work incurred.

Historically, range operations are fairly constant, and reimbursements are well projected and executed. The good working relationships between the ranges and their customers help insure that reimbursements are fully earned. This allows the range to maintain a core workforce, funded with both institutional and earned reimbursements.

SHIPPING MILITARY EXCHANGE PRODUCTS OVERSEAS

Question: About a week ago the subcommittee learned that at the end of March there will, quite possibly, be no funds available for shipping military exchange products overseas. Has the Air Force been contacted in an effort to resolve this problem? If so, what are the proposed solutions?

Answer: The Air Force has been informed by the Army and Air Force Exchange Service (AAFES) Washington Office that there was no funding problem associated with the shipment of exchange products overseas but a cap problem which limited the amount of funds that the Army could obligate for these shipments. The Army, the executive agent for AAFES cargo distribution, enacted a short term solution which should allow continued overseas AAFES shipments until May 1, 1989. The Army is also attempting to obtain permanent relief on the current cap from the HASC and SASC through official channels. The Army considers this an in-house problem and does not require Air Force assistance at this time.

DEPOT MAINTENANCE MODERNIZATION

In its 1988 report on depot maintenance modernization, the Logistics Management Institute stated that a modernization strategy for depot maintenance provides a context for making decisions on capital-investment projects. Without such a context, capital-investment decisions tend to be made on an ad hoc, project-by-project basis. The Institute further stated that a systematic approach to capital investment planning, including new technologies, is essential for effective modernization planning.

Question: Has the Air Force Logistics Command (AFLC) developed an integrated long-range modernization plan which incorporates each Air Logistics Center's plans?

Answer: Yes. HQ AFLC issues corporate direction to the Air Logistics Centers in the form of AFLC strategic objectives, posture plans and basic needs for capital investment planning. Each center then develops a Logistics Improvement of Facilities and Technology (LIFT) plan which identifies specific needs and associated projects that relate to each of the basic needs. The specific needs are ranked by the Center and by HQ AFLC. The Asset Capitalization Program (ACP) projects can then be related to the big picture (i.e., basic and specific needs). Projects are prioritized with consideration given to the priority of the associated need. This approach to planning allows AFLC to effectively use the limited ACP funds to support the most important needs of the Command.

Question: To what extent do past and current ACP purchases reflect what is contained in the plan?

Answer: The LIFT systematic approach to capital investment planning has evolved over several years. Consistency between LIFT plans and ACP expenditures will not be completely achieved until the fiscal year 1991 program.

Question: To what extent does the AFLC long-range modernization plan provide for accomplishing the Air Force's mobilization repair workloads?

Answer: AFLC assigns workload to the ALCs based on a posture planning process. This process is the corporate means of managing peacetime workload to maximize the potential for wartime surge. These assignments to enhance AFLC's mobilization capability are identified as specific needs in the LIFT plans. Therefore, ACP projects that support these needs are identified and ranked with all other requirements.

Question: Has AFLC developed an overall strategy for introducing new technology into its depot modernization plan?

Answer: Yes. During 1988, AFLC initiated the Technology Insertion (TI) program. The objective of this program is to improve productivity and customer support by making needed improvements to depot maintenance and repair processes. Command-wide process analyses are conducted by a team of contractor (McDonnell Douglas) and government personnel. Potential improvements are identified in such areas as shop layout, work flow, capital equipment, etc. The TI program identifies specific needs and projects for input to the LIFT plans. These needs and projects are ranked with all other requirements.

The LIFT plans contain facilities, equipment and technology projects. The technology projects become proposed Repair Technology (i.e., the portion of Manufacturing Technology devoted to AFLC Depot Operations) and Productivity Reliability Availability and Maintainability (PRAM) efforts.

In addition, four Industrial Technology Exchange Groups have been established to promote the transfer of proven technology throughout the Command. They are aligned with four distinct industrial processes (i.e., Engines, Airframe, Electronics and Software). These groups discuss technology projects which become solutions to specific needs in the LIFT plans.

EXISTENCE OF AN AF CONSOLIDATED INVESTMENT ACCOUNT

Question: During its review of the Air Force's Fiscal Year 1989 Operation and Maintenance (O&M) budget request, the General Accounting Office noted the existence of an Air Force consolidated investment account. Excess revenues from Morale, Welfare and Recreation (MWR) activities, such as open messes, are deposited into it and earn interest. How much is currently in this account and how much interest has been earned?

Answer: As of December 31, 1988, this account had $247.9 million on deposit. In FY 1988 the account had revenues (interest income) of $18.6 million from investments and loans. Of these revenues, $14.7 million was paid out in interest on deposits and $1.6 million was used for operating expenses.

Question: What uses are made of these funds and who controls and manages them?

Answer: This account is the Air Force Central Financial Management Fund (AFCFMF). It is a nonappropriated fund instrumentality (NAFI) which serves as the central bank for all other Air Force NAFIs (base, command, and Air Force-level NAFIs). All NAFIs are required to deposit all of their nonappropriated funds (NAF) with the AFCFMF. It does not include any funds appropriated by Congress. Of the $247.9 million on deposit, $191.2 million was invested while the remainder was held in an operating account used for financing daily operations. The invested portion of the funds is reserved for long-term operations and contingencies such as construction of MWR facilities, employee pension liabilities and self-insurance. Further, all NAF U.S. dollar checks written by the NAFIs clear against this account. Funds are moved in and out of investments on a daily basis to maintain a zero balance in the central checking account, thus assuring the maximum utilization of cash. With this cash management system, the AFCFMF can perform the cash management function more economically than each individual NAFI managing its own financial affairs. Of the $247.9 million on deposit as of December 31, 1988, base level NAFIs controlled $186.7 million, command level NAFIs controlled $47.8 million and Air Force level NAFIs controlled $13.4 million. The investment function performed by this "bank" is managed by the Comptroller Division of the Directorate of Morale, Welfare, and Recreation Operations and is overseen by the Air Force Morale, Welfare, and Recreation Board.

MASTER LABOR CONTRACT BETWEEN JAPAN AND U.S.

Extract of Transcript: A master labor contract cost sharing agreement exists between the governments of Japan and United States. It provides that the Japanese government will pay certain allowances such as housing and retirement for Japanese workers employed at US facilities in Japan. The agreement specifies that Japan will determine for each of its fiscal years (April to March 30) the actual contribution for its share of allowances. The General Accounting Office reported in June 1988 that, because of the differences in fiscal years, the amount of actual Japanese contributions was uncertain at the time the Services prepared their original Fiscal Year 1989 budget estimates. Consequently, the Fiscal Year 1989 Air Force O&M budget request did not reflect the $21.8 million in labor contributions by Japan.

Question: How is the Air Force share of this labor contribution handled?

Answer: The Government of Japan (GOJ) bills the US Government for our share of the FNIH pay and allowances. The GOJ does not transfer or provide any funds to the US Government. Funds appropriated by the GOJ for their share of the benefits and allowances paid to Japanese employees remain with the GOJ. Thus, any savings would result in lower bills from the GOJ.

Question: What has the Air Force budgeted for Japanese foreign national indirect hires (FNIH) for Fiscal Years 1990 and 1991?

Answer: Air Force has budgeted Total Obligation Authority (TOA) (direct and reimbursements) $129 million for FY 1990, and $133 million for FY 1991.

Question: Have adjustments been made in the Air Force's Fiscal Year 1990 and 1991 budget to reflect Japan's cost sharing contribution? If so, what are the amounts of the adjustments.

Answer: Yes, the FY 1990 and 1991 budgets have been reduced to reflect increased GOJ contributions up from 50% of FNIH funding requirements to 75%. The current FY 1989 program reflects the $43.6 million congressional reduction directed in the FY 1989 DOD Appropriations Bill. This reduction was extended into FY 1990 and the outyears.

CENTRALIZED INTERMEDIATE LEVEL REPAIR FACILITY AT KADENA AB

Question: In 1975 the Air Force established a centralized intermediate-level repair facility at Kadena Air Base, Okinawa, Japan to support F-15's and F-4 aircraft located at Kadena, Osan and Kunsan in Korea, and Clark Air Force Base in the Philippines. It is my understanding that the Pacific Air Force has decided to decentralize intermediate maintenance by transferring the work done at Kadena back to the fighter wings. The estimated cost for this transfer is $58 million over a four-year period. I assume that the primary reason for this action is to increase survivability of the maintenance function. Would you provide the subcommittee with the cost-benefit studies, survivability evaluations and other analyses that were made before this decision was made?

Were any other alternatives considered, such as hardening existing facilities and dispersing throughout Okinawa?

Did PACAF obtain the approval of Air Force Headquarters for this transfer?

Gen. Watts: The PACAF Logistics Support Center (PLSC) was inactivated to provide combat wings more effective control over intermediate maintenance capability; to disperse equipment and personnel for survivability; and to minimize overall transportation costs, yet maintain high standards of service. A cost benefit study, per se, was not conducted since the overriding reason for the decentralization was mission capability and force survivability. We are not aware of any additive AF O&M costs. With the expanding threat in the Pacific Theater and the need to maximize our logistics support structure, the decision was made to return as much intermediate level maintenance capability as possible to each wing.

The PACAF logistics staff did not consider hardening existing facilities in Okinawa since this would still have all theater intermediate maintenance at one location. Dispersing PLSC maintenance functions throughout Okinawa was not considered a viable alternative since this would only turn a large PLSC into many small PLSCs. To increase the combat capability, it was determined that the operational wings needed to have control over their intermediate maintenance functions. Hq PACAF did obtain approval of Hq USAF to decentralize the PLSC funded authorizations to existing maintenance units in the Pacific Theater within existing command resources.

AUTOMATED SYSTEMS

Question: A large portion of the $2.8 billion is expended on automated systems such as the Logistics Management System (LMS) modernization program. This consists of nine separate projects intended to modernize and upgrade the systems used by the Logistics Command to manage spare parts and maintain weapon systems. The command originally estimated that the LMS program would cost $715 million and be completed in 1990. Current estimates total nearly $1 billion and estimated completion in 1994. The subcommittee continues to support modernization efforts but is concerned that cost increases and schedule slippages may be affecting the affordability of these programs. What has the Air Force done to reduce the cost of ongoing projects?

Answer: The LMS program is about 3 percent of the 2.8 billion requested by Air Force for FY90. The Air Force is also concerned with cost increases and schedule slippages, that is why we started taking aggressive management action back in 1985 to ensure we are acquiring LMS programs in the most cost effective manner and on a timely basis. In December 1985, the Logistics Management Systems Center Commander directed that cost/schedule status reports be implemented on all programs, regardless of contract type. This ensures that even for fixed price contracts, cost and schedule performance can be assessed and quick corrective management action taken. Contractor performance against cost and schedule baselines is evaluated at all program reviews to include joint reviews with the contractor and quarterly formal briefings between the program manager and the LMSC Commander. When the cost/schedule reports indicated a problem, the situation was directly communicated by the LMSC Commander to senior management officials of the development contractors for corrective actions. Contract award fees are calculated and adjusted based upon the variances reported in these cost and schedule status reports for contractor performance.

In addition to these contract performance controls, the Air Force adopted a top down analysis, design, and development methodology which leads to more refined requirements definition and logical data base design which reduces program development risk and cost growth. Also, the LMS modernization program receives continual cost/schedule oversight by OASD's Major Automated Information System Review Council (MAISRC) and Air Force Secretariat Automated Information System Acquisition Review Council (AISARC). Finally, the Air Force continues to comply with the requirement to formally notify OSD and Congress of any schedule delays or cost increases which exceed 15% of the program baseline. On 19 December 1988, the Air Force provided its third notification to Congress on cost and schedule changes, since program inception.

Question: Has the Air Force considered reprioritizing or delaying new projects until some ongoing ones are completed?

Answer: SECDEF guidance to the services regarding the FY89 budget was to delete programs rather than delay or extend them. Within this guidance all new programs were scrutinized and lower priority projects deleted. Consequently, the Air Force FY90 budget includes only mission essential command, control, communications and computer projects. Therefore, none should be deferred.

ANNUAL DEPOT MAINTENANCE POSTURE PLAN

Question: In response to the Subcommittee's questions during the Fiscal Year 1990 O&M budget request, the Air Force stated that (1) the Annual Depot Maintenance Posture Plan had been deferred pending development of an exchangeable (aircraft parts) strategy and that (2) programs are in place to ensure that Air Logistics Centers can transition from peacetime to wartime operations.

Has this strategy been developed and incorporated in the Posture Plan? If so, please provide the Subcommittee with a copy of the plan. Describe the programs in place to ensure that ALC's can transition from peacetime to wartime operations including programs to train the work force. During such a transition could unfunded items be quickly repaired?

Gen. Watts: The update to the Annual Depot Maintenance Posture Plan has been briefed to, and approved by, the Air Staff. The update covers Fiscal Years 90/91/92, and is being incorporated into the formal AFLC Posture Plan for publication and distribution. An exchangeables strategy has been developed and incorporated into the Posture Plan. The objective of this strategy is to posture the command peacetime exchangeables repair capability so that it can be adopted to support wartime surge requirements.

In updating the Posture Plan, AFLC computed the wartime requirements identifying those workloads that will be required in war and the rate of surge associated with the items. Workloads that are determined to have a wartime repair requirement of 160% above the peacetime requirement are considered high surge items and will need additional support in wartime. An analysis to the current posture versus the wartime required capability was accomplished and strategies developed to correct any deficiencies between wartime capability and requirements. The strategies include movement of workload between Air Logistics Centers, assignments of new workloads to specific ALCs, movement of workloads from contract to organic and/or organic to contract, and the establishment of multiple sources of repair for designated items.

The organic industrial base provides the assured industrial capability which enables AFLC to surge to meet wartime requirements. This base must be maintained to ensure optimum readiness. Posture Planning and the development of workload strategies (exchangeables, aircraft and engine) are dynamic activities and though formally updated annually, require constant vigilance of day-to-day changes. All planned actions serve to balance the command posture for wartime mission support and are the overall plan to ensure the ALC's can transition from peacetime to wartime operations. Manpower requirements are computed to support peacetime operations as well as to identify the increased wartime requirements to include additional manhours, extended work days and work weeks. A backup capability of on-call employees allows AFLC to compensate for fluctuations in depot maintenance workload and provide a skilled employee bank from which AFLC can fill positions. Records of secondary skills held by employees are maintained so that these workers may be used in other workload areas as required during contingencies. Movement of indirect or overhead workers to direct labor positions and employees working on low/no surge items to high surge items are additional options available to support wartime operations. Factors to account for learning curve and degradation of skills are also considered in developing the overall wartime posture capability.

The basic objective of Air Force maintenance management is to ensure a ready source of technical competence and resources necessary to support the wartime mission. In the event of wartime activity, unfunded items, when determined to be critical, would be reprioritized and repair accomplished in an expeditious manner.

AFLC
POSTURE PLANNING
ANNUAL REVIEW

FY 90/91/92

OVERVIEW

- OBJECTIVES
- WARTIME PLANNING ASSUMPTIONS
- CRITICAL MASS
- CURRENT POSTURE
- POSTURE ANALYSIS
- ISSUES

BASIC OBJECTIVES OF AIR FORCE MAINTENANCE MANAGEMENT

DOD DIR. 4151.1

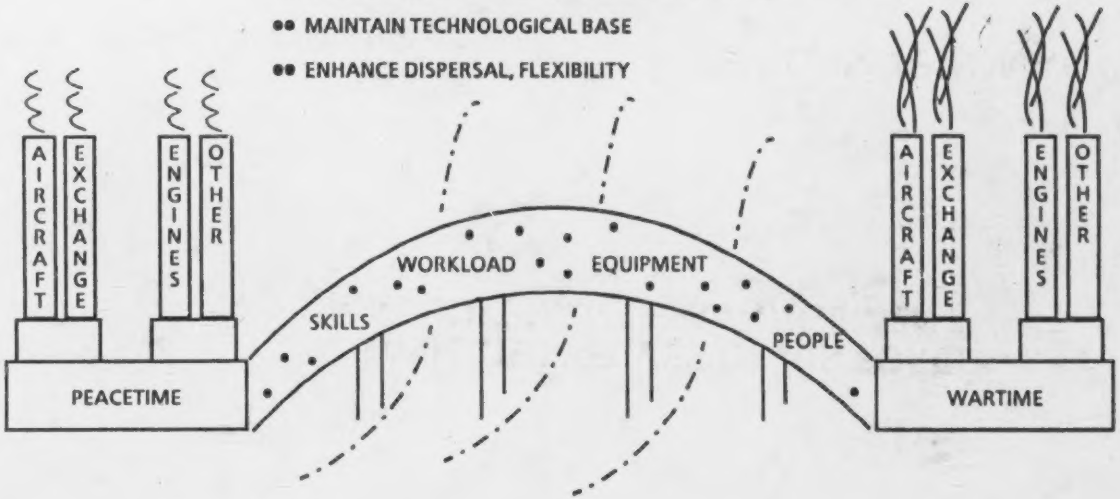
"...INSURE A READY AND CONTROLLED SOURCE OF TECHNICAL COMPETENCE AND RESOURCES NECESSARY TO MEET MILITARY CONTINGENCIES..."

- RESPONSIVE IN WAR
- SUPPORT OPERATIONAL FORCES
- COST EFFECTIVE

WHAT IS THE JOB?

TO ALLOCATE PEACETIME WORKLOAD IN ORDER TO BE READY TO GO TO WAR

- BRIDGE GAP BETWEEN PEACETIME AND WARTIME POSTURES
  - ASSURE CAPABILITY FOR CRITICAL WORK LOADS
  - MAINTAIN TECHNOLOGICAL BASE
  - ENHANCE DISPERSAL, FLEXIBILITY


AIRCRAFT
EXCHANGE
ENGINES
OTHER
PEACETIME
SKILLS
WORKLOAD
EQUIPMENT
PEOPLE
AIRCRAFT
EXCHANGE
ENGINES
OTHER
WARTIME

WARTIME PLANNING ASSUMPTIONS

REQUIREMENTS

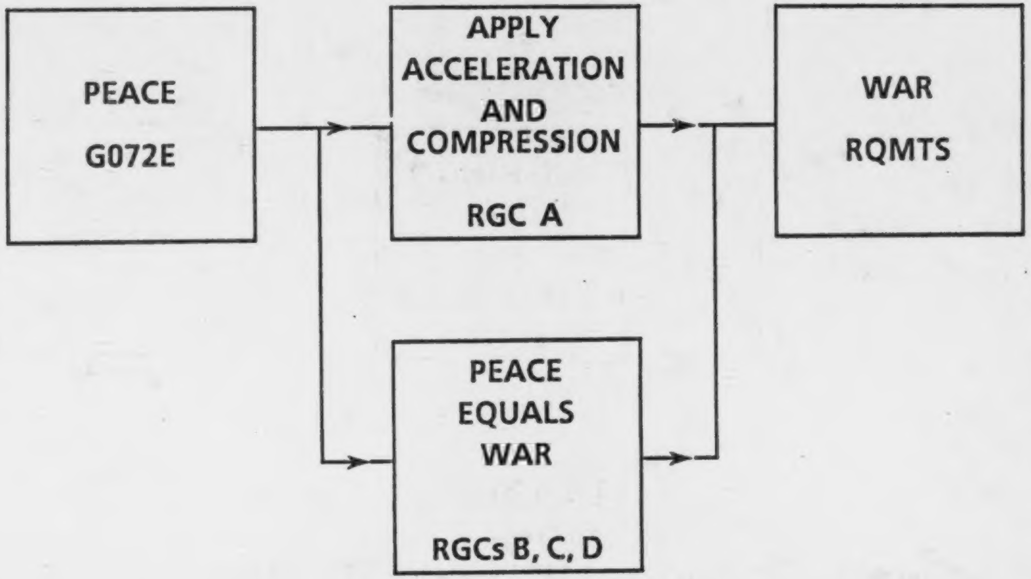
- PEACETIME BREAK RATES VALID
- WARTIME FLYING HOURS (WMP) VALID
- PEACE TO WAR FLYING HOUR RATIOS BY MDS ADEQUATELY PREDICT WARTIME GENERATIONS FOR MOST CATEGORIES
- RETROGRADE AVAILABLE FOR WORK IN 30 DAYS
- REQUIREMENT PEAKS AND VALLEYS REQUIRE WORST THREE CONSECUTIVE MONTH AVERAGE
- WARTIME REQUIREMENTS ROLL FORWARD
- AIRCRAFT WORKLOAD WILL LEVEL AT 25% OF PEACE AFTER ACCELERATION / COMPRESSION - MODS

WARTIME PLANNING ASSUMPTIONS

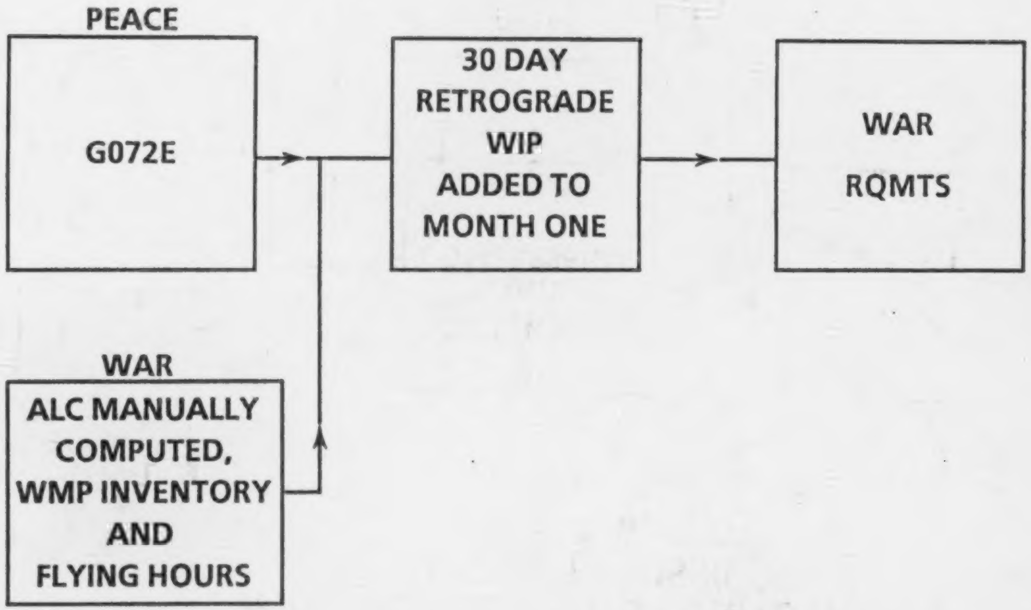
CAPABILITY

- 160% OF PEACETIME
    - 60 HOUR WEEK VICE 40
    - REDUCTIONS IN LEAVE, TRAINING, ADMIN
- WARTIME EFFICIENCY – 93%
- EFFICIENCY DEGRADATIONS
    - MULTIPLE SHIFTS
    - SECONDARY SKILLS
    - NEW HIRES
    - INDIRECT TO DIRECT TRANSFER
    - IMA STARTING POINT
- SUPERVISORY RATIO

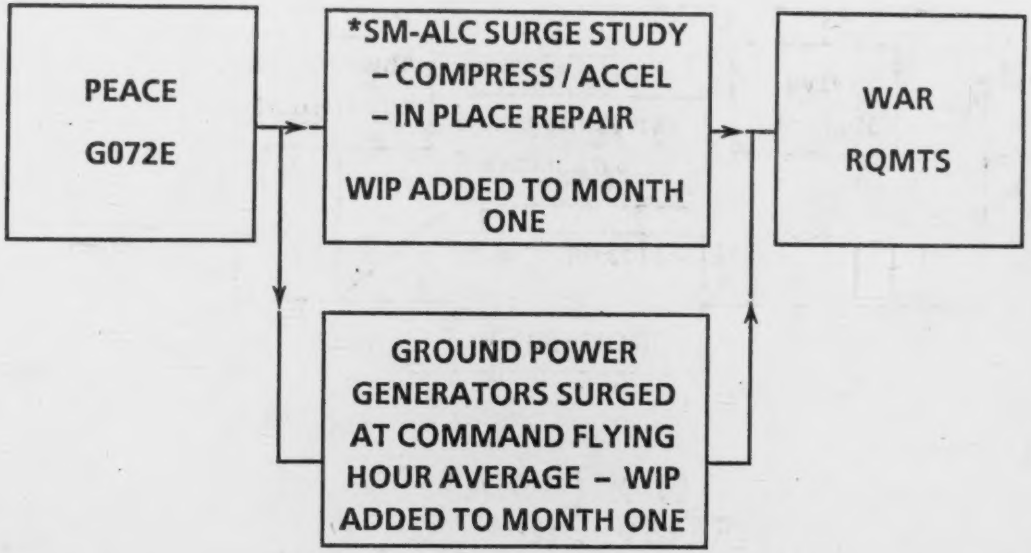
WAR REQUIREMENTS COMPUTATION
AIRCRAFT / MISSILES
(RGCs A, B, C, D)


PEACE
G072E
APPLY
ACCELERATION
AND
COMPRESSION
RGC A
PEACE
EQUALS
WAR
RGCs B, C, D
WAR
RQMTS

WAR REQUIREMENTS COMPUTATION ENGINES (RGCs E, F)


PEACE
G072E
WAR
ALC MANUALLY COMPUTED, WMP INVENTORY AND FLYING HOURS
30 DAY RETROGRADE WIP ADDED TO MONTH ONE
WAR RQMTS

WAR REQUIREMENTS COMPUTATION
OMEI
(RGCs G, H)



PEACE
G072E

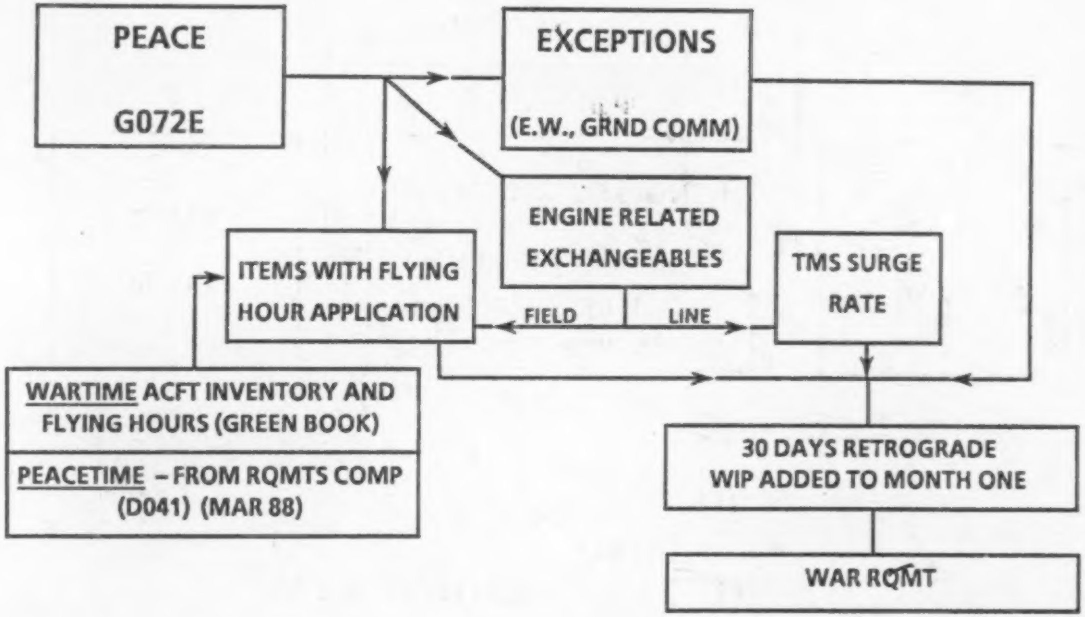
*SM-ALC SURGE STUDY
- COMPRESS / ACCEL
- IN PLACE REPAIR

WIP ADDED TO MONTH ONE

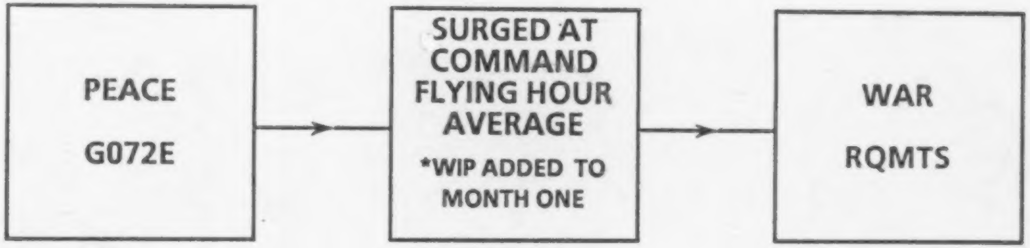
GROUND POWER GENERATORS SURGED AT COMMAND FLYING HOUR AVERAGE – WIP ADDED TO MONTH ONE

WAR
RQMTS

WAR REQUIREMENTS COMPUTATION
EXCHANGEABLES
(RGCs J, K, L)


PEACE
G072E
EXCEPTIONS
(E.W., GRND COMM)
ENGINE RELATED EXCHANGEABLES
ITEMS WITH FLYING HOUR APPLICATION
FIELD
LINE
TMS SURGE RATE
WARTIME ACFT INVENTORY AND FLYING HOURS (GREEN BOOK)
PEACETIME – FROM RQMTS COMP (D041) (MAR 88)
30 DAYS RETROGRADE WIP ADDED TO MONTH ONE
WAR RQMT

WAR REQUIREMENTS COMPUTATION
AREA BASE/MANUFACTURING
(RGCs M, N, P, R)



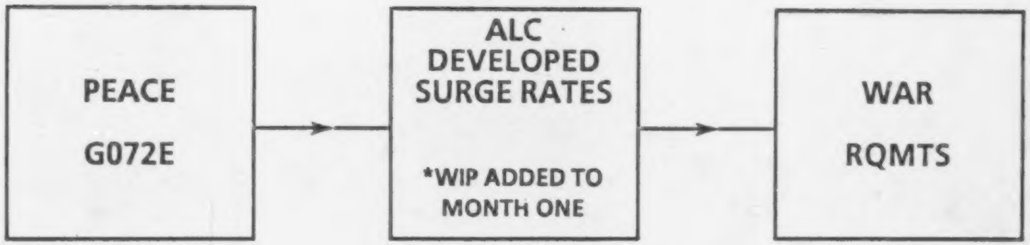
PEACE
G072E

SURGED AT
COMMAND
FLYING HOUR
AVERAGE
*WIP ADDED TO
MONTH ONE

WAR
RQMTS

*WIP EQUALS ONE MONTH PEACE

WAR REQUIREMENTS COMPUTATION SOFTWARE
(RGC S)



PEACE

G072E

ALC
DEVELOPED
SURGE RATES

*WIP ADDED TO
MONTH ONE

WAR

RQMTS

* WIP EQUALS ONE MONTH PEACE

FY90 CRITICAL MASS

HIGH SURGE

WORKLOAD	PE
ENGINE RELATED	6983.00
AIRCRAFT RELATED	3498.58
MANUFACTURE	3031.16
AIRBORNE ELECTRONICS	2584.99
INSTRUMENTS	2393.77
OTHER	2337.11
SOFTWARE	1621.81
HYDRAULICS/PNEUD	1409.35
AREA BASE	1104.82
ELECTRONIC AGE	835.69
ELECTRICAL COMPONENTS	814.45
LANDING GEAR	545.33
OXYGEN COMPONENTS	290.37
NUCLEAR COMPONENTS	205.38
PHOTOGRAPHIC EQMT	148.73
LIFE SUPPORT SYS	113.31
ELECTRO-MECH AGE	99.15
PROPELLERS	56.66
TOTAL	28073.66

MEDIUM/LOW SURGE

WORKLOAD	PE
AIRFRAME	3711.05
ENGINES	3186.97
SOFTWARE	913.60
OMEI	821.53
MISSILES	814.45
MISSILE COMPONENTS	538.24
GROUND ELECTRONICS	311.61
AIRMUNITIONS	169.97
WEAPONS	77.90
TRNG & SIM EQMT	42.49
TOTAL	10587.81

WARTIME REQUIREMENT	38662
SECONDARY SKILL LOSS	+ 989
INDIRECT TO DIRECT	-1515
RESERVE/IMA	+ 1671
NEW HIRES	-2264

TOTAL CRITICAL MASS 37,543

FY 90 PEACE AND WARTIME CAPABILITY

(DPAH 000)

CENTER	CRIT MASS	X	YIELD	+	ANN MIL CAP	=	TOTAL ANN CAP	MONTHLY PEACE CAP	MONTHLY WAR CAP
OC	8203		1115		126		9272	773	1,219
OO	6878		1109		310		7938	662	1,018
SA	7978		1118		60		8979	748	1,189
SM	6353		1101		71		7066	589	933
WR	6502		1140		27		7439	620	989
AG	1629		1099		0		1790	149	238
	(37543)								

FY91 CRITICAL MASS

HIGH SURGE

WORKLOAD	PE
ENGINE RELATED	7082.15
AIRCRAFT RELATED	3576.49
ENGINES	3356.94
MANUFACTURE	3031.16
AIRBORNE ELECTRONICS	2677.05
INSTRUMENTS	2365.44
OTHER	2287.54
SOFTWARE	1558.07
HYDRAULICS/PNEUD	1409.35
AREA BASE	1104.82
ELECTRICAL COMP	814.45
ELECTRONIC AGE	694.05
LANDING GEAR	474.50
OXYGEN COMPONENTS	297.45
NUCLEAR COMPONENTS	198.30
PHOTOGRAPHIC EQMT	162.89
LIFE SUPPORT SYSTEMS	120.40
ELECTRO-MECH AGE	99.15
PROPELLERS	42.49
TOTAL	31352.69

MEDIUM/LOW SURGE

WORKLOAD	PE
AIRFRAME	3966.01
SOFTWARE	934.84
OMEI	793.20
MISSILES	729.46
GROUND ELECTRONICS	637.39
MISSILE COMPONENTS	509.92
AIRMUNITIONS	169.97
WEAPONS	99.15
TRNG & SIM EQM	28.33
TOTAL	7868.27
WARTIME REQUIREMENT	39221
SECONDARY SKILL LOSS	+ 851
INDIRECT TO DIRECT	-1515
RESERVE/IMA	+ 1671
NEW HIRES	-2264
TOTAL CRITICAL MASS	37,964

FY 91 PEACE AND WARTIME CAPABILITY

(DPAH 000)

CENTER	CRIT MASS X	YIELD +	ANN MIL CAP =	TOTAL ANN CAP	MONTHLY PEACE CAP	MONTHLY WAR CAP
OC	8295	1115	128	9376	781	1,234
OO	6955	1109	310	8023	669	1,029
SA	8068	1118	60	9080	757	1,203
SM	6424	1101	71	7144	595	942
WR	6575	1140	27	7523	627	1000
AG	1647	1099	0	1810	151	242
	(37964)					

FY92 CRITICAL MASS

HIGH SURGE

WORKLOAD	PE
ENGINE RELATED	8094.90
AIRCRAFT RELATED	3618.98
INSTRUMENTS	2542.49
MANUFACTURE	2691.22
AIRBORNE ELECTRONICS	2677.05
OTHER	2202.55
SOFTWARE	1480.17
HYDRAULICS/PNEUD	1614.73
AREA BASE	1069.41
ELECTRICAL COMP	856.94
ELECTRONIC AGE	686.97
LANDING GEAR	502.83
OXYGEN COMPONENTS	361.19
NUCLEAR COMPONENTS	212.46
PHOTOGRAPHIC EQMT	169.97
LIFE SUPPORT SYSTEMS	120.40
ELECTRO-MECH AGE	92.06
PROPELLERS	42.49
TOTAL	29036.81

MEDIUM/LOW SURGE

WORKLOAD	PE
AIRFRAME	3179.89
ENGINES	3144.48
SOFTWARE	878.19
OMEI	757.79
MISSILES	686.97
GROUND ELECTRONICS	531.16
MISSILE COMPONENTS	517.00
AIRMUNITIONS	169.97
WEAPONS	92.07
TRNG & SIM EQMT	21.25
TOTAL	9978.77
WARTIME REQUIREMENT	39016
SECONDARY SKILL LOSS	+ 955
INDIRECT TO DIRECT	-1515
RESERVE/IMA	+ 1671
NEW HIRES	-2264
TOTAL CRITICAL MASS	37,863

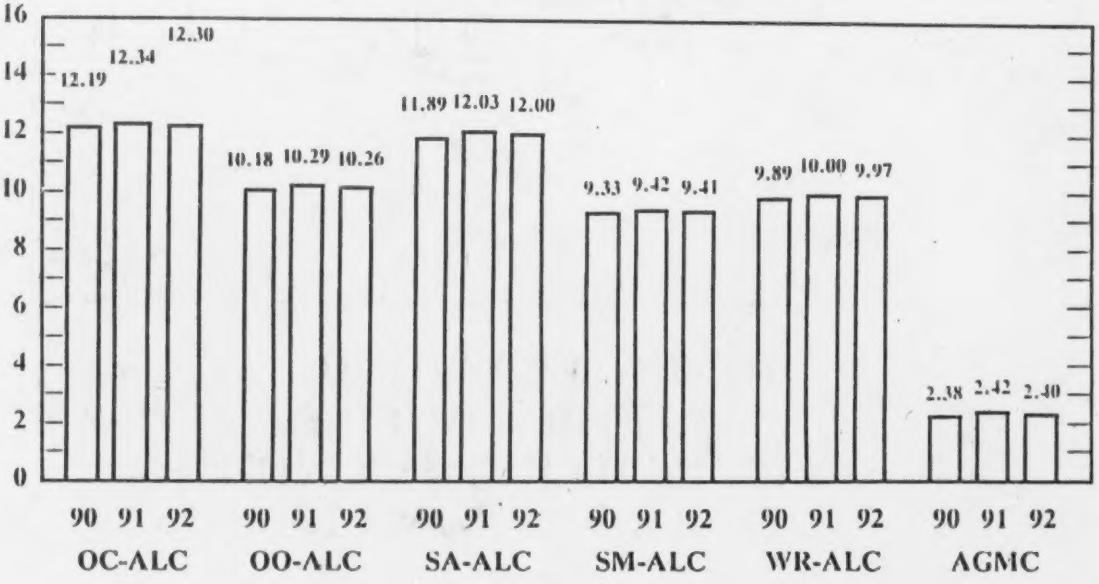
FY 92 PEACE AND WARTIME CAPABILITY

(DPAH 000)

CENTER	CRIT MASS	X	YIELD	+	ANN MIL CAP	=	TOTAL ANN CAP	MONTHLY PEACE CAP	MONTHLY WAR CAP
OC	8273		1115		128		9352	779	1,230
OO	6937		1109		310		8003	667	1,026
SA	8046		1118		60		9055	755	1,200
SM	6406		1101		71		7124	594	941
WR	6558		1140		27		7503	625	997
AG	1643		1099		0		1806	151	240
	(37863)								

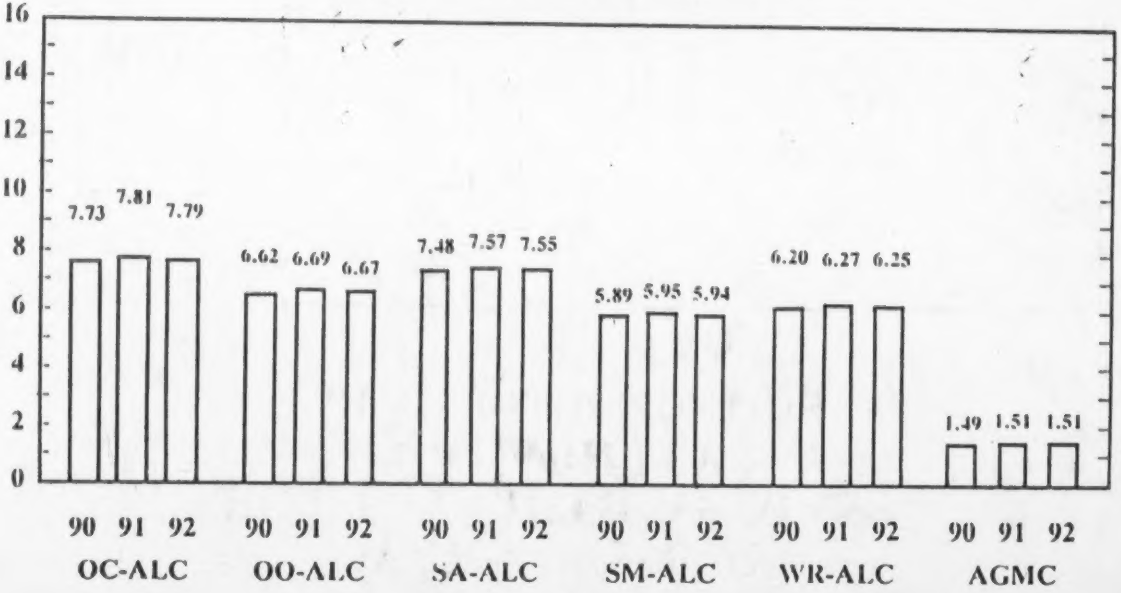
WAR — FY90-92 RQMT vs CRITICAL MASS CAPABILITY

DPAH (00,000/MONTH)



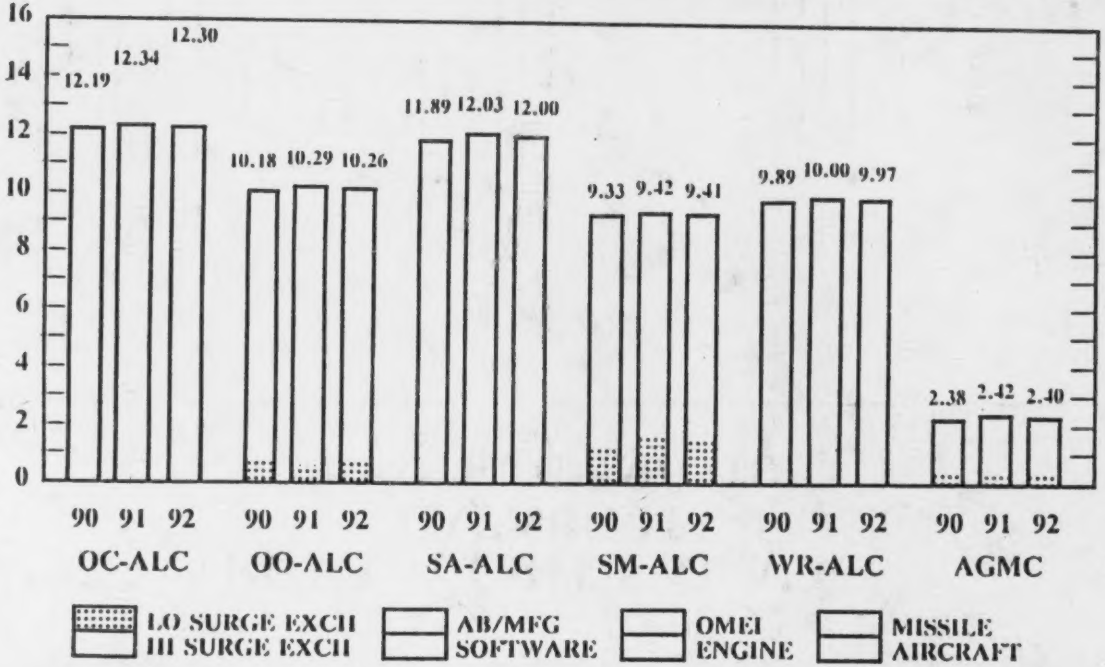
PEACE — FY90-92 RQMT vs CRITICAL MASS CAPABILITY

DPAH (00,000/MONTH)



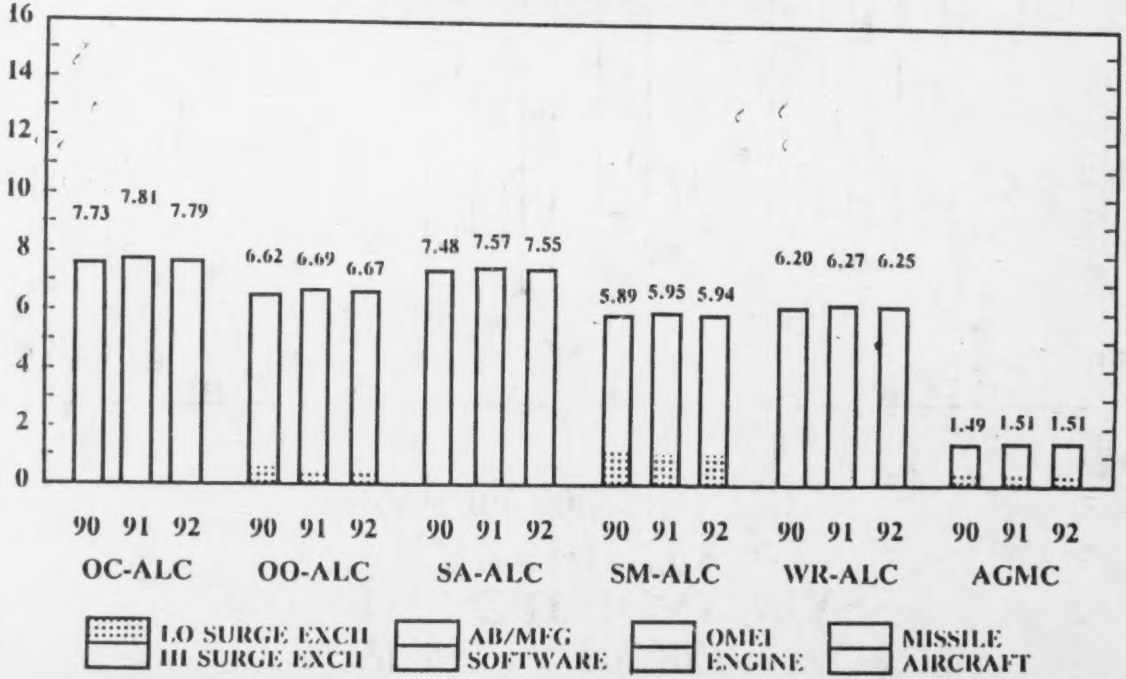
WAR — FY90-92
RQMT vs CRITICAL MASS CAPABILITY

DPAH (00,000/MONTH)

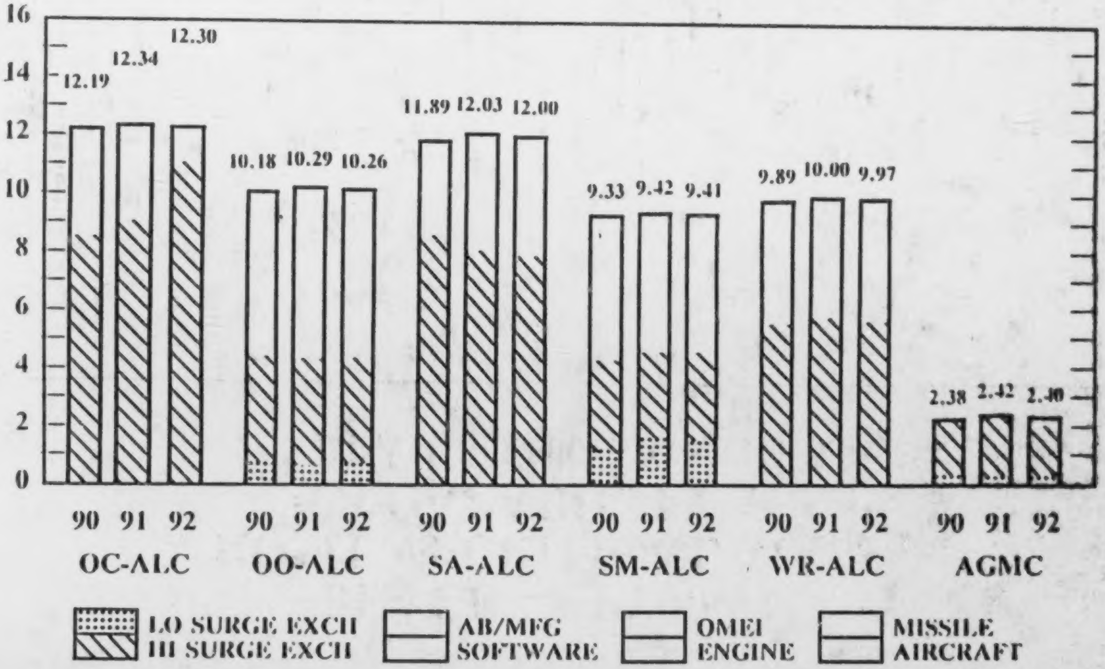


PEACE — FY90-92 RQMT vs CRITICAL MASS CAPABILITY

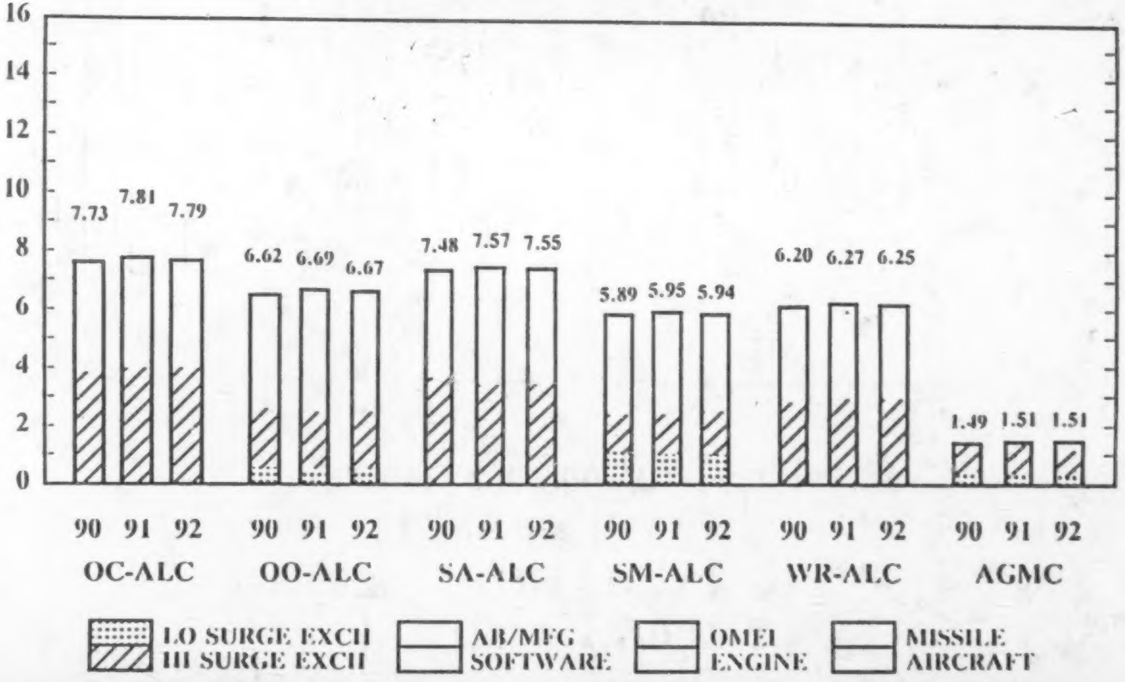
DPAH (00,000/MONTH)



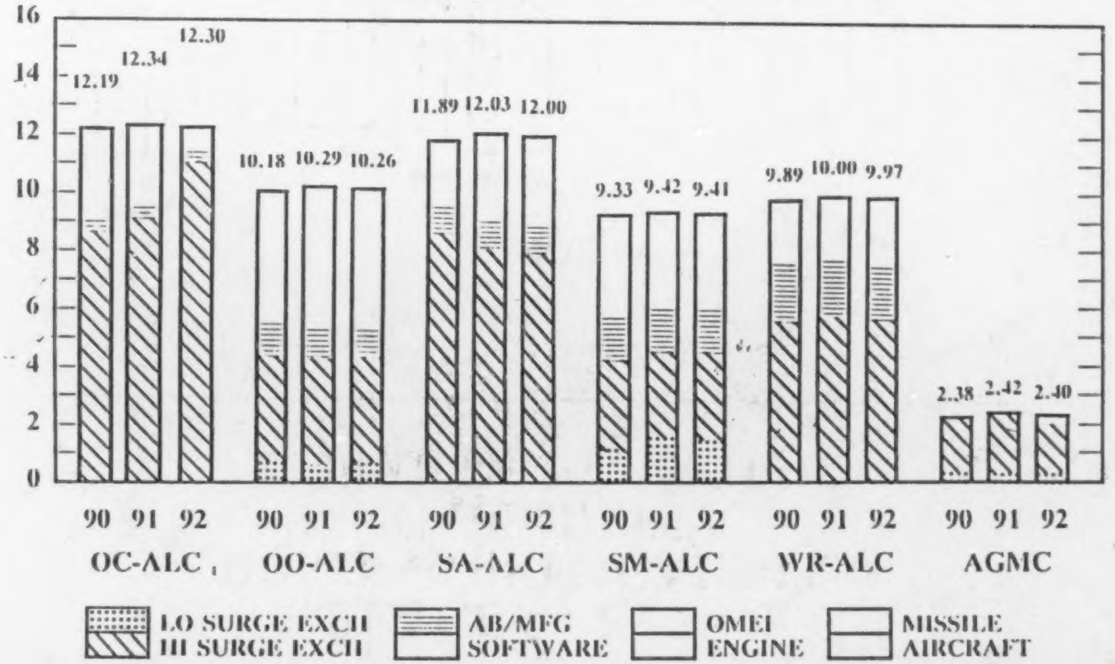
WAR — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



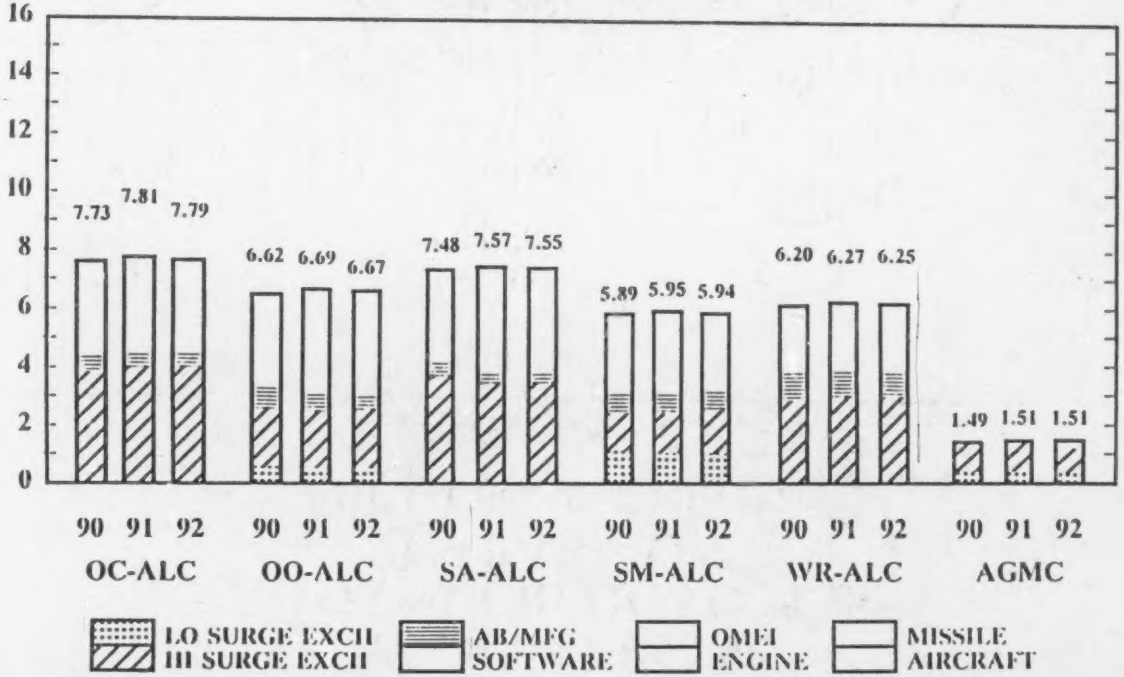
PEACE — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



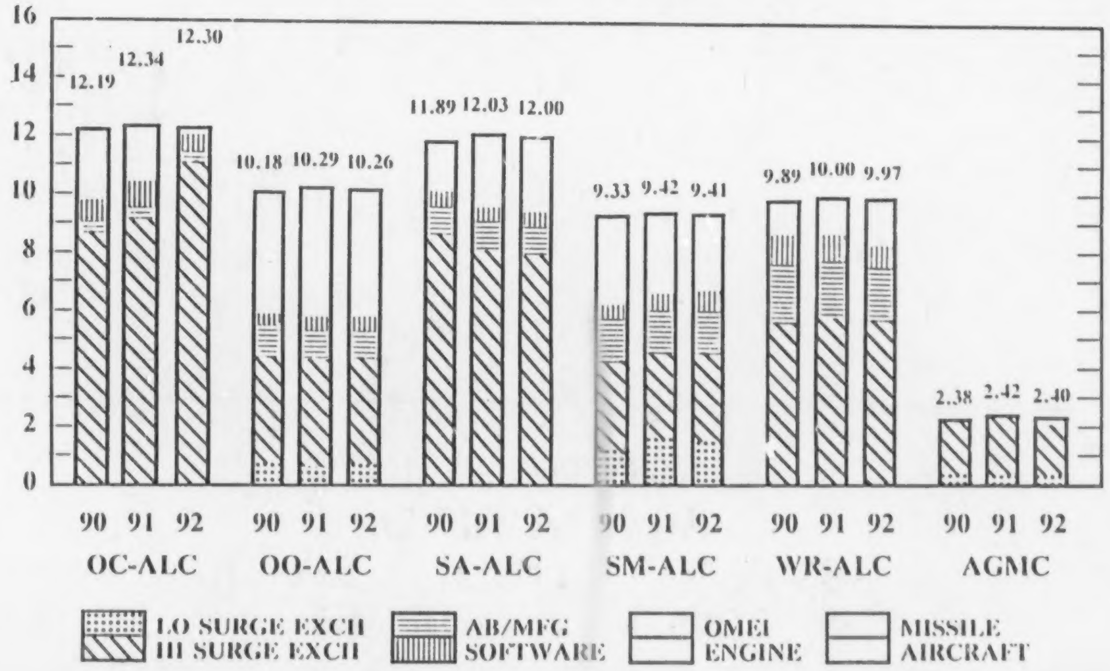
WAR — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



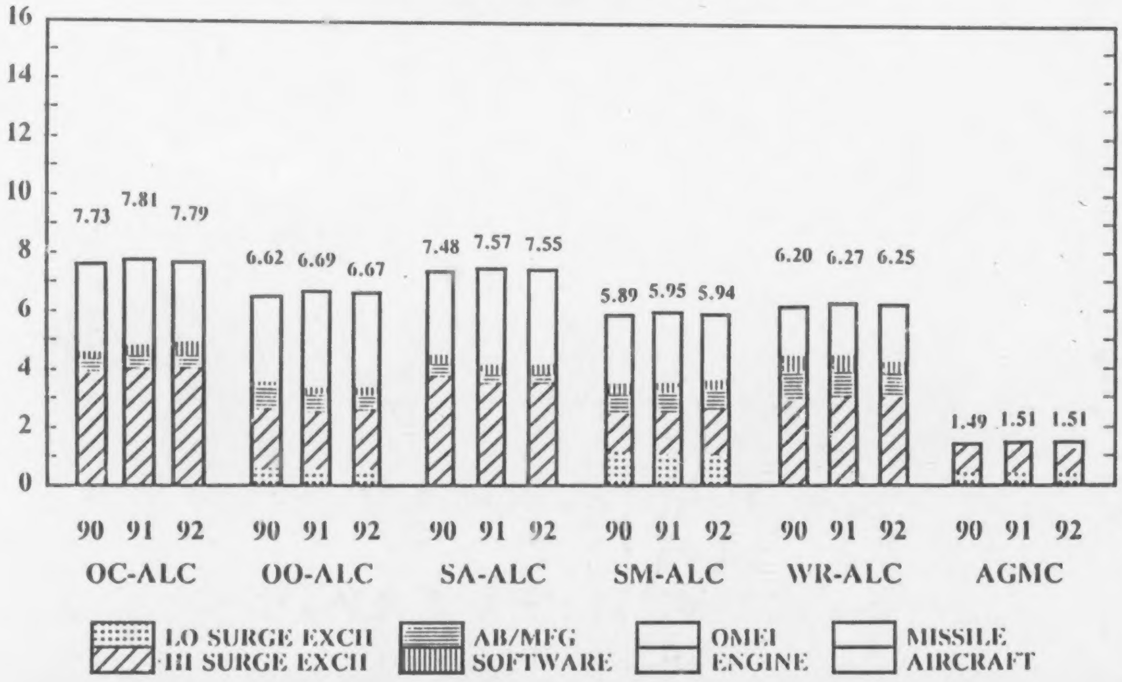
PEACE — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



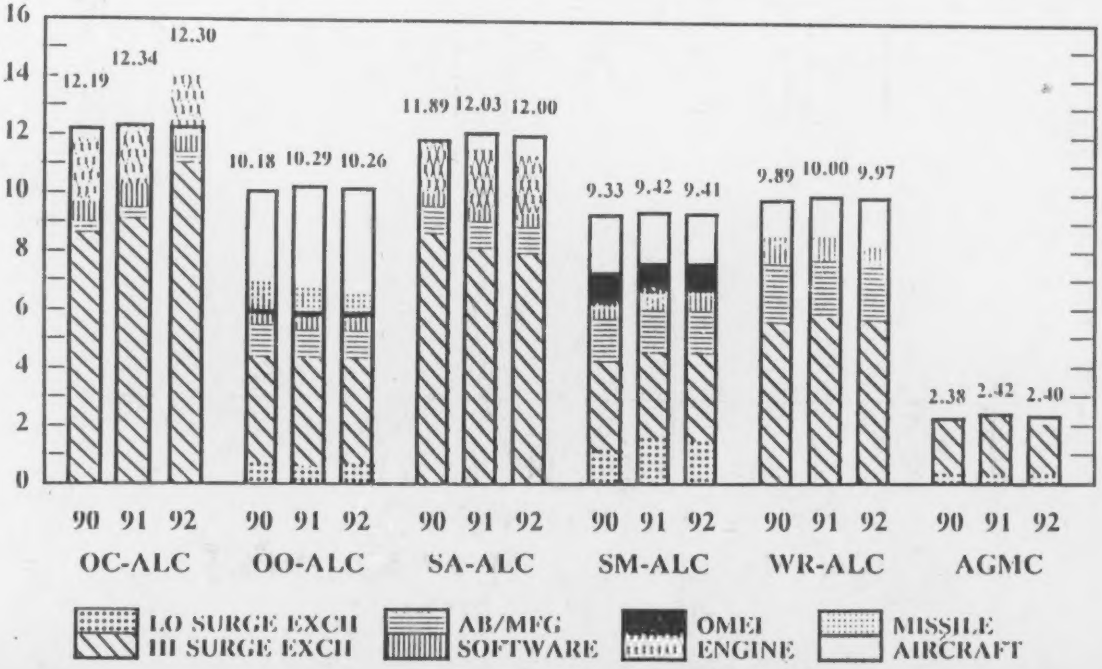
WAR — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



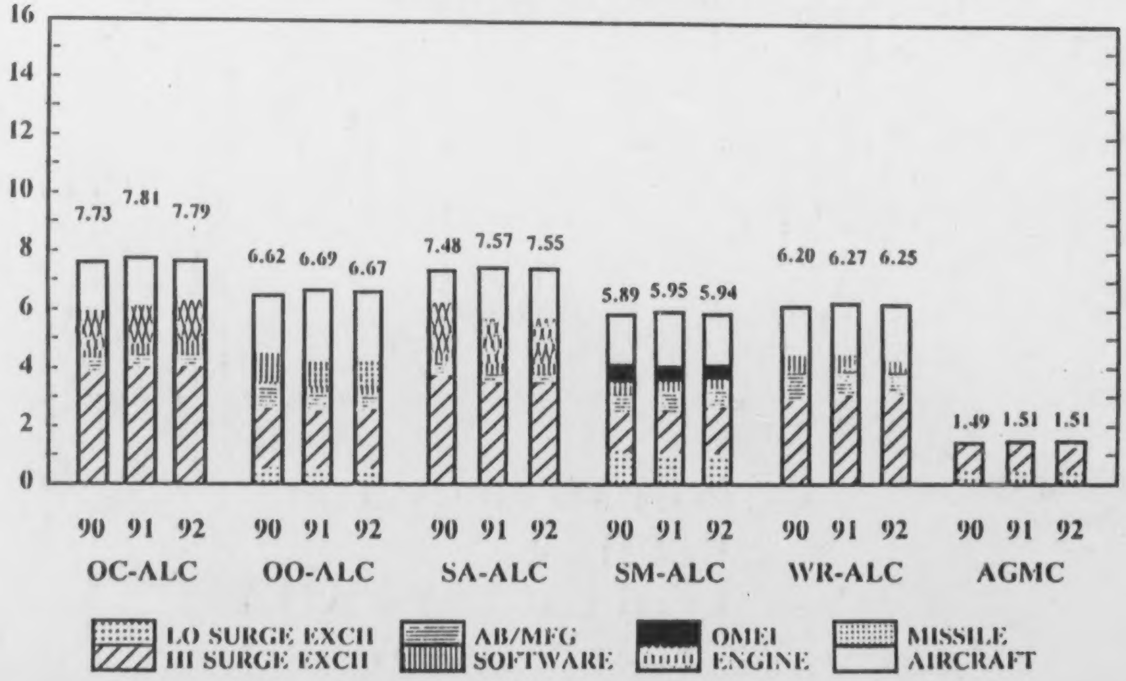
PEACE — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



WAR — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)

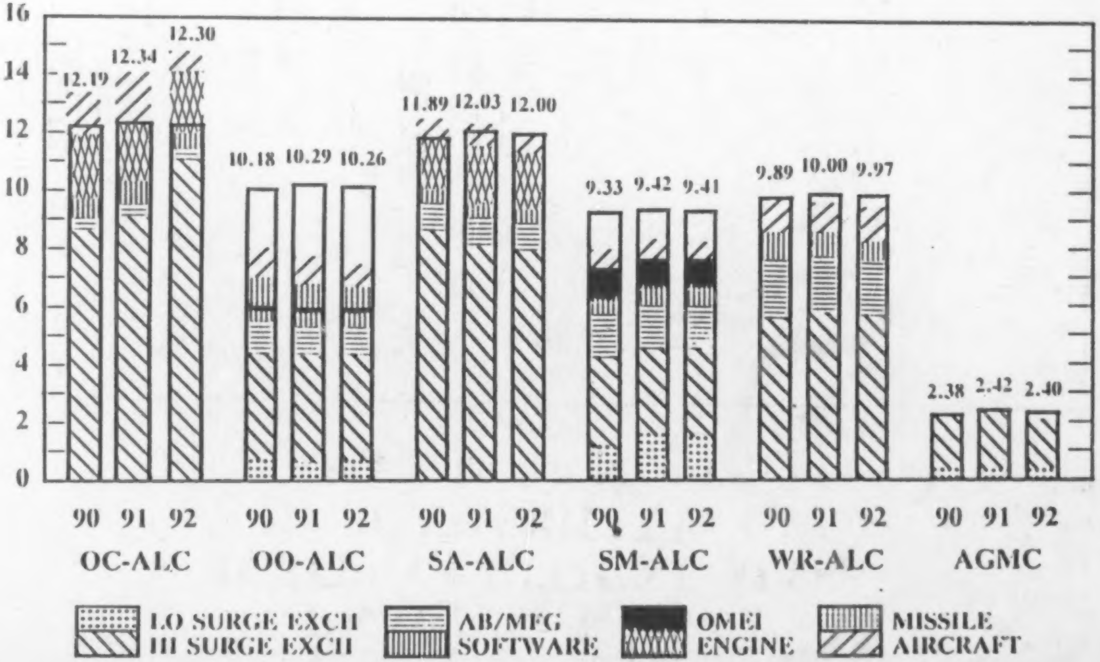


PEACE — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



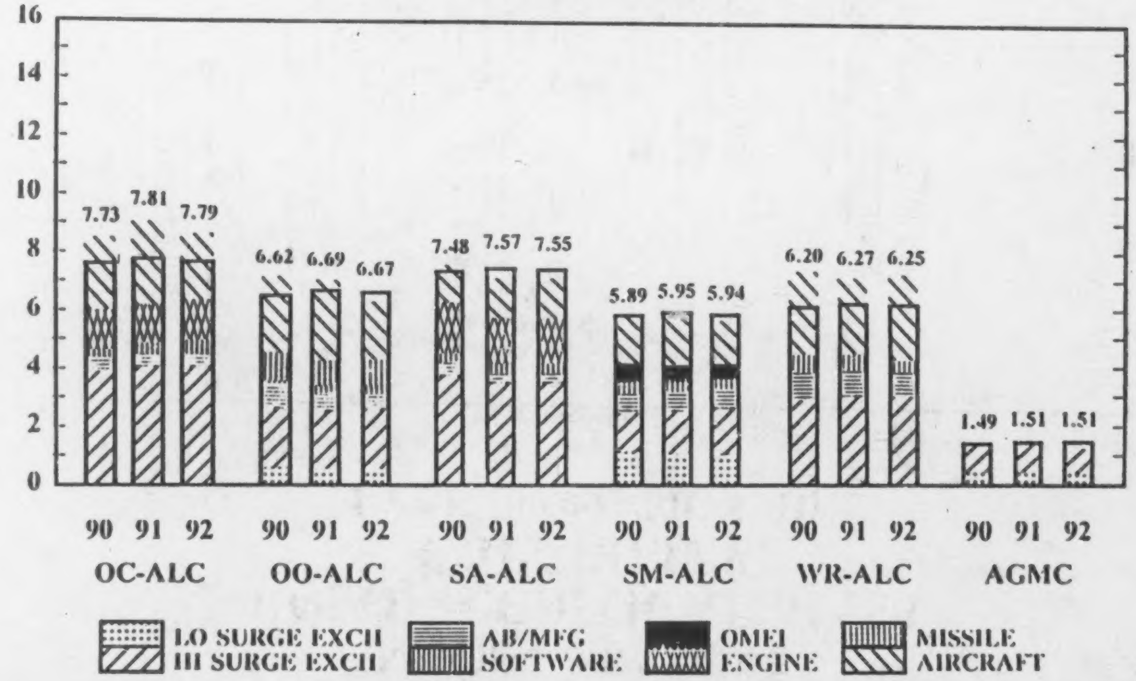
]

WAR — FY90-92
RQMT vs CRITICAL MASS CAPABILITY
DPAH (00,000/MONTH)



PEACE — FY90-92 RQMT vs CRITICAL MASS CAPABILITY

DPAH (00,000/MONTH)



POSTURE ANALYSIS

- AFLC TOTAL (M HRS/MO)

	FY 90	FY 91	FY 92
●● PEACE			
REQUIREMENT	3.891	3.883	3.763
CAPABILITY	3.541	3.580	3.571
OVERLOAD	9.9%	8.5%	5.4%
●● WAR			
REQUIREMENT	5.459	5.538	5.509
CAPABILITY	5.586	5.650	5.634
RESERVE	2.3%	2.0%	2.3%

- KEY POSTURING QUESTIONS
  - IS WARTIME REQUIREMENT ACHIEVABLE AT EACH CENTER?
  - IF NOT, WHAT REPOSTURING NEEDED IN SCALE AND MIX?

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

- SCALE & MIX OF WORKLOAD
- OPTIONS
- FOR PEACE, TARGET TO ACHIEVE EQUAL COMMAND OVERLOAD; I.E., FY 90 = 109.9%, FY 91 = 108.5%, FY 92 = 105.4%
- FOR WAR, TARGET TO ACHIEVE FULL USE OF WARTIME CAPABILITY; I.E., 100% FOR ALL THREE YEARS

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

SAMPLE

CENTER		FY	CAP	REQ	DELTA: NEED TO
ALC	PEACE	90	1,000 (1,099)	1,039	GAIN 60
		91	1,000 (1,085)	1,095	LOSE 10
		92	1,000 (1,054)	1,084	LOSE 30
	WAR	90	1,500	1,600	LOSE 100
		91	1,500	1,650	LOSE 150
		92	1,500	1,750	LOSE 250

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER		FY	CAP	REQ	DELTA: NEED TO
OC	PEACE	90	773 (850)	849	GAIN 1
		91	781 (847)	910	LOSE 63
		92	779 (821)	875	LOSE 54
	WAR	90	1219	1330	LOSE 111
		91	1234	1414	LOSE 180
		92	1230	1490	LOSE 260

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER
OC

ACTIONS REQUIRED, IN PROGRESS:

- OFFLOAD HIGH SURGE EXCHANGEABLES
- HIGH SURGE CONTRACT ENGINE EXCHANGEABLE WORKLOAD TO ORGANIC

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER		FY	CAP	REQ	DELTA: NEED TO
OO	PEACE	90	662 (728)	752	LOSE 24
		91	669 (726)	747	LOSE 21
		92	667 (703)	665	GAIN 38
	WAR	90	1018	835	GAIN 183
		91	1029	824	GAIN 205
		92	1026	780	GAIN 246

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER
OO

ACTIONS REQUIRED, IN PROGRESS:

- ON-LOAD HIGH SURGE EXCHANGEABLES
- F-16 SPEEDLINE OFFLOAD - FY94

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER		FY	CAP	REQ	DELTA: NEED TO
SA	PEACE	90	748 (822)	804	GAIN 18
		91	757 (821)	752	GAIN 69
		92	755 (796)	746	GAIN 50
	WAR	90	1189	1276	LOSE 87
		91	1203	1261	LOSE 58
		92	1200	1236	LOSE 36

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER
SA

ACTIONS REQUIRED, IN PROGRESS:

- F-100 ENGINE EXCHANGEABLES OFF CONTRACT (LOW SURGE)
- HIGH SURGE EXCHANGEABLES OFFLOAD

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER		FY	CAP	REQ	DELTA: NEED TO
SM	PEACE	90	589 (647)	615	GAIN 32
		91	595 (646)	635	GAIN 11
		92	594 (626)	630	LOSE 4
	WAR	90	933	809	GAIN 124
		91	942	855	GAIN 87
		92	941	847	GAIN 94

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER
SM

ACTIONS REQUIRED, IN PROGRESS:

- F-15 SPEEDLINE OPERATIONAL OCT 88
- F-15 SSOR IN FY92
- ON-LOAD HIGH SURGE EXCHANGEABLES
- ON-LOAD SOFTWARE WORKLOAD
  - NEW STARTS
  - WR-ALC IDENTIFIED TPS
- OFFLOAD COMM-ELECTRONICS TO KEMBLE (OWLP)

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER		FY	CAP	REQ	DELTA: NEED TO
WR	PEACE	90	620 (681)	743	LOSE 62
		91	627 (680)	717	LOSE 37
		92	625 (659)	719	LOSE 60
	WAR	90	989	1011	LOSE 22
		91	1000	997	GAIN 3
		92	997	962	GAIN 35

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER
WR

ACTIONS REQUIRED, IN PROGRESS:

- F-15 SSOR OFFLOAD-FY92
- REVIEW SOFTWARE TPS WORKLOAD FOR POTENTIAL SHARING
- F-16 SPEEDLINE-FY94

POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER		FY	CAP	REQ	DELTA: NEED TO
AG	PEACE	90	149 (164)	159	GAIN 5
		91	151 (164)	154	GAIN 10
		92	151 (159)	155	GAIN 4
	WAR	90	238	246	LOSE 8
		91	242	236	GAIN 6
		92	240	231	GAIN 9

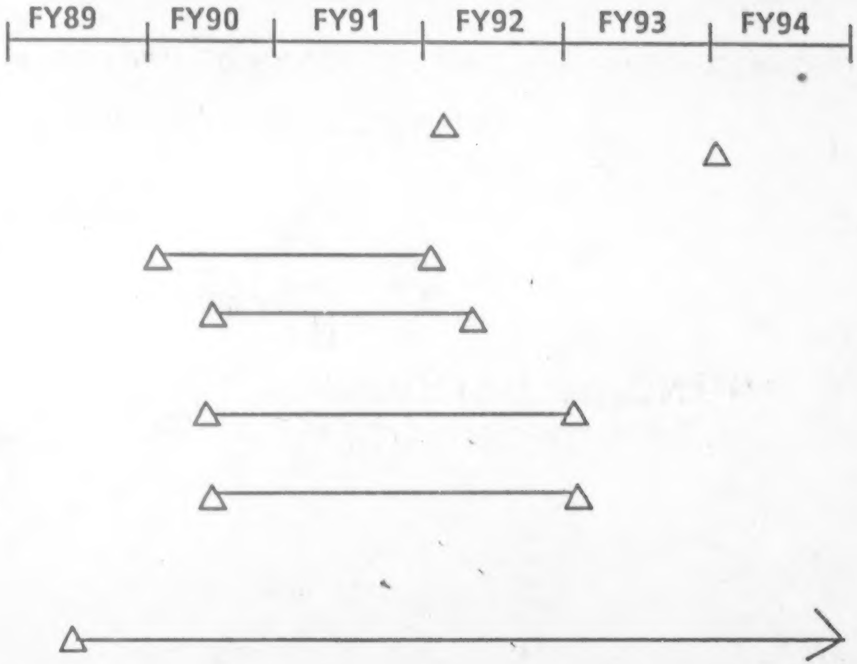
POSTURE ANALYSIS
(DPAH IN 000/MONTH)

CENTER
AG

ACTIONS REQUIRED, IN PROGRESS:

- ON-LOAD EXCHANGEABLE AND SOFTWARE WORKLOAD

POSTURE PLANNING MASTER STRATEGY



1. AIRCRAFT STRATEGY
   - F-15 SECOND SOR
   - F-16 SPEEDLINE

2. ENGINE STRATEGY
   - F-100 OFF CONTRACT
   - OC-ALC CONTRACT TO ORGANIC

3. EXCHANGEABLE STRATEGY
   - HIGH SURGE FROM SA AND OC
   - HIGH SURGE TO OO AND SM

4. SOFTWARE STRATEGY
   - BALANCE CENTERS POSTURE

SUMMARY

- FY90/91/92 POSTURE
    - OVERALL CAPABILITY MATCHES WORK
    - WORKLOAD RESTRUCTURING NECESSARY
    - CORPORATE APPROACH VITAL
    - FUNDING CUTS COULD IMPACT SKILLS BASE FOR CRITICAL MASS

METHOD OF BUDGETING

The Department of Defense is testing a method of budgeting that is expected to produce gains in mission performance without degrading accountability for funds. This is referred to as the "Unified Budget Test," and permits local commanders to consider their budget as one account instead of a number of subdivided pots of money with restrictions on the use of each. A number of Air Force bases are included in this test.

Question. What are the problems with the current budget execution system that led to the need for a unified budget at the installation level?

Gen Watts: The primary installation level budget execution problem addressed by the UBT is the lack of financial flexibility to deal with changing needs and priorities. Installation commanders' operating funds are divided into numerous accounts that cannot be mixed and are available only for specific purposes. For example, the Air Force must issue Family Housing Operation and Maintenance funds to the field in nine separate funding categories such as operations, maintenance, leasing, utilities, etc. The Operation and Maintenance, AF, appropriation is appropriated, distributed and controlled among nine Major Force Programs. Base level equipment items costing $15,000 and over must be purchased from another appropriation. Bases with research and development missions finance base operating support requirements from RDT&E funds that are controlled by program element. All of these constraints can prevent the commander from making optimum use of his resources.

Question. If all appropriation fences and other Congressional restrictions are lifted to unify installation budgets, what assurance would the Congress have that the budget is being executed as approved?

Gen Watts: A large part of installation operating budgets is for relatively fixed costs. Therefore, there is no reason to expect massive changes even if increased flexibility is provided. Secondly, the unified budget encompasses only costs associated with operating military installations; Congressional oversight of other budget categories, e.g., major investment or research and development programs, would not be affected at all. Third, adoption of a unified budget does not need to alter the type or detail of budget justification provided to the Congress. Congress would continue to be able to review the budget as justified and appropriated, and then to compare that position with the current position and actual obligations in following budget cycles. If necessary, the Congress could then require changes. However, we are confident that this would not be found necessary. After all, the Congress and the DoD both have an interest in spending resources in the most cost effective and efficient manner.

DATA ON WHICH TO BASE FLYING HOUR REQUIREMENTS

Question: A September 30, 1986 General Accounting Office (GAO) report discussed the need to develop quantitative data on which to base flying hour requirements. The former Chairman of the Readiness Subcommittee requested GAO to determine what the Air Force had accomplished since 1986 because the flying hour program is the single most important factor in maintaining Air Force Readiness, and a substantial portion of the O&M budget is used to support flying operations.

A GAO report submitted to the Subcommittee on March 9 states that both the Department of Defense and the Air Force have efforts underway, or planned, to accumulate and analyze objective data, and relate this information to flying hour requirements. However, the GAO noted that the effort by the Tactical Air Command is estimated to take three years but only one-half a man year will be expended each year on this study. Since this committee, and others, could use the data developed as a basis for defending the flying hour program, is there any way your office could find to speed these studies along?

Gen. Watts: The Department of Defense and the Air Force agree that it is desirable to make progress in these studies as rapidly as possible as long as the validity of the analyses is not compromised. It should be understood, however, that the analytical task is complex and difficult. In some cases, data sources are incomplete or unsuitable for analytical purposes. Objective quantitative measures of changes in performance resulting from training are available only for some types of missions or portions of missions. Analysis is further complicated by the fact that variables other than flying hours, such as the quality of available ranges, may have a major influence on performance. These complexities make it imperative to proceed carefully, frequently testing a variety of analytical techniques, to insure that the results are valid. Nonetheless, considerable progress is being made.

The Department of Defense study by the Institute for Defense Analyses (IDA), using data from the Navy, Marine Corps and Air Force, is producing significant findings. Notably, analysis shows that the quality of carrier landings and accuracy of tactical bombing are significantly degraded by reductions in flying hours. Preliminary results show a similar outcome in success in air-to-air combat exercises on instrumented ranges. Evidence to date indicates that career flying hours, as opposed to recent flying hours, are particularly important in attaining high performance. This argues for maintaining a consistently sufficient level of flying hours in order to build up career experience. While these results are limited in scope, they do indicate that further progress is possible.

The Tactical Air Command test which adds more qualitative evaluation to the system of tracking continuation training requirements relies on pilot assessments of performance during each training mission. Two squadrons have been selected to participate in the test and have been collecting training data since January 1989. The requirements for the study have been increased to two man-years for the three year study. The Tactical Air Command has also contracted a $12 thousand effort to assist with data collection at both squadrons. Since the study must address pilots' training over a period of time, increasing the manpower will not decrease the study time. The study examines a major change in the way training requirements are projected and capability achievement is assessed, and it is essential that it proceed at a studied, measured pace.

CREDIBILITY OF DEPOT MAINTENANCE REQUIREMENT

Question: The Air Force Logistics Command recently evaluated why the fiscal year requirement (FY 88) declined. What are the results of the evaluation?

Answer: AFLC attributed most of the reduction to the exchangeable and engine overhaul requirements for:

-- Programmatic reductions such as the F-4 flying hour decrease and the GLCM phase out

-- Higher than expected reliability in some of the newer systems such as the F-110 engine

--Transfer of work from depot to field level

-- Lower unit sales prices

Question: Did the results of this evaluation and the findings from prior studies affect the requirements included in the fiscal years 1990-1991 budget sbmission?

Answer: Yes, in preparation for FY 1990-1991 Presidents Budget, we used a new methodology to refine the unfunded executable requirement. This new technique impacted two factors:

1. We recomputed the stand-alone requirements using updated FY 1988 program data, OPTEMPO, failure rates, and modification schedules.
2. For carry-in requirements we compared FY 1988 actual versus projected carry-in requirements and subsequently adopted new procedures for determining the valid carry-in requirements for the next year.

Question: If so, by how much?

Answer: The following examples illustrate changes to the total reqwuirement:

FY 1988 was reduced by 21% from the FY 1988-1989 budget to the FY 1990-1991 budget.

FY 1989 was reduced by 26% from the FY 1988-1989 budget to the FY 1990-1991 budget.

Question: What methodology did the Air Force use to determine the $3.6 billion of depot maintenance requirements in the Fiscal Year 1990 budget submissioon?

Answer: The stand-alone requirements were recomputed using updated program data reflecting differences in flying hours and force structure changes plus adjustments for embedded software and interim contractor support. The unfunded requirements were discounted by an average of 40% across the FYDP to get the carryover to the next year.

PRINCIPLE PURPOSE OF LOGEX

Question: What is the principal purpose of the Logistical Airiift (LOGAIR), or Logistical Express (LOGEX) as it is now called, and why does it continue to be needed, or needed at its present level, in view of the large number of responsive private delivery services that have entered in the market place in recent years.

Answer: LOGEX is an Air Force transportation network operated in the continental United States by contract commercial air and surface carriers. LOGAIR has two principal purposes, to serve as an efficient infrastructure for airlift of material between points in the United States in the event of war and to provide a cost effective means of moving cargo in peacetime to support major weapon systems. It provides expedited movement of high priority military cargo to 54 locations over designated scheduled routes and has the flexibility to respond to unscheduled requirements as necessary. LOGEX is managed by the Air Force Logistics Command. Contract air carriers (members of the Civil Reserve Air Fleet program) provide the aircraft, aircrews, and maintenance. Department of Defense personnel onload and offload the aircraft and prepare required documentation. LOGEX is the only air express system which can support the volume of Air Force hazardous, sensitive, and oversize cargo shipped daily. The Department of Transportation has granted a waiver to airlift hazardous materiel which has not been granted to commercial carriers. LOGEX accommodates cargo of the weight, dimension, and commodity limitations required to support the operational forces of the Air Force. The cost is less than would be paid to commercial air carriers to move Air Force cargo on an individual basis.

In 1984-1986, the Air Force conducted the CONUS Cargo Movement Requirements Study to establish the actual transportation requirements for all Air Force cargo moving in the United States. The study identified the major weapons system beddown locations that require daily support, as well as the point-to-point volume of high priority cargo.

As designed, the system meets Air Force requirements on a point-to-point basis for the movement of high priority cargo. Logistics Express is sized to carry those shipments that cannot be accommodated on a timely and economical basis by the common carrier industry. These shipments include oversized aircraft engines, missile guidance units, airframe components, hazardous cargo and other large, highly classified items. The peacetime system is designed to be expandable to meet wartime cargo movement requirements. LOGEX is reviewed annually. A further reduction in the peacetime system will result in fewer airframes committed to the Civil Reserve Air Fleet, and a shortfall in available aviation resources committed to meet the Department of Defense's wartime airlift needs in the United States. These wartime requirements cannot be met by DoD aircraft since they will be deployed overseas.

Question: We understand the Air Force is exploring the feasibility of entering into a LOGEX contract with United Parcel Service (UPS). What is the status of that issue?

Answer: The Air Force has discussed its movement requirements with UPS and other parcel carriers. A formal, Request for Information (RFI), will be published in the Commerce Business Daily later this year. The RFI will request such information that the industry is willing to provide to improve the efficiency of LOGAIR through full and open competition. The Air Force is receptive to system operation and acquisition strategy changes that may lead to increased industry participation in LOGAIR contracts. UPS has chosen, to date, not to participate in the LOGAIR system.

Question: What benefit would a UPS contract provide the Air Force over the current practice of shipping material by UPS as necessary?

Answer: The Air Force is a major shipper of materiel by UPS and other parcel carriers where their services provide the lowest overall cost and and satisfy time requirements. UPS participation in the LOGAIR system may result in the savings of Air Force movement dollars but will require a major change in the UPS concept of operations to enable that carrier to move classified, hazardous, and outsized cargo.

Question: To what extent are Military Airlift Command (MAC) special airlift missions and other MAC or command airlift available for Air Force second destination transportation needs in the United States? For Example, to what extent are MAC aircraft or other aircraft used for emergency transportation needs with the United States?

Answer: MAC aircraft based in the continental United States (CONUS) are available on a limited degree for second destination transportation (SDT) needs. Their use on a scheduled basis would conflict with the National Airlift Policy which seeks to foster the growth of the commercial airline industry. Air Force SDT special assignment airlift missions (SAAMs) within CONUS are used to transport Minuteman III missiles and oversized/outsized cargo within the United States (i.e., helicopters to maintenance facilities, crash/damaged aircraft to repair sites and trainer simulators) for which adequate commercial airlift is not available. Also, SAAMs are used to transport highly sensitive classified equipment and associated documentation between locations within the United States. On occasion, opportune airlift is used when aircraft are either positioning/depositioning from home station missions or when these aircraft are coming out of depot maintenance and repostitioning back to home station. MAC aircraft may be used for emergencies within the United States if authorized by the appropriate approval authority. For instance, the Air Force has provided emergency airlift within the United States for national disasters such as the Yellowstone National Park fire in 1988.

PACIFIC DISTRIBUTION SYSTEM FOR FUNDING

Question: What plans does the Air Force have to re-submit the Pacific Distribution System for funding? Are funds being requested this year to develop or operate such a system? If so, what is the cost and what appropriations will fund the system?

Answer: Beginning in FY 90, six C-12F aircraft are scheduled to be transferred from their Operational Support Airlift (OSA) function to operate in a logistics support role in the Pacific theater. The development of the PDS program will not require additional resources since the aircraft are currently funded in the OSA flying hour program. A breakout of the costs by appropriation are as follows (dollars are in millions):

	FY90	FY91
Aircraft Operations (3400 Appropriation)	$3.3	$3.3
Aircraft Operations (3500 Appropriation)	1.8	1.8
Total	$5.1	$5.1

Foreign National Pay

Mr. Lancaster: On page 9 of your statement, you point out that the proposed 2% pay raise applies to both U.S. and foreign national. You also state that "to the extent foreign national pay raises continue to exceed those allowed for U.S. nationals, the O&M account will be forced to absorb the shortfalls..." Would you please explain this apparent discrepancy in how we pay U.S. and foreign nationals? If there is a discrepancy, how much, on average, more does the U.S. pay foreign nationals over what we pay our own citizens for the same type of work?

General Watts: The "apparent discrepancy" in how we pay U.S. employees and foreign national employees is caused by the fact that compensation for U.S. employees is based on the salary schedules set by Congress while cost of living increases for foreign nationals is based upon negotiated host country treaties and agreements. In the budget before you we have budgeted for a 2% pay raise for U.S. employees and foreign national employees. If the agreement negotiated with the host country allows for cost of living increases to be equal to their inflation rate, the increase could be greater than the 2% budgeted. To the extent these increases are greater than 2% the Air Force O&M account will be forced to absorb the shortfalls. At the present time we do not know what the cost of living increases will be required for our foreign national employees in FY 90. However, in FY 89 we expect our foreign national cost of living increases to be approximately 7% overall. If we assume the same rate of increase in FY 90 the Air Force could expect an overall shortfall of approximately $15M.

COST OF MEDICAL CARE

QUESTION: It seems that each year DOD underestimates the cost of medical care, including CHAMPUS. In your statement, you point out that you are attempting to reduce the cost. Would you provide some details on Air Force initiatives to reduce medical care costs?

ANSWER: I agree that one of the major issues facing the medical community of the Air Force is the rising cost of health care. To provide quality health care while aggressively addressing its rising cost, we have invested $33 million in FY 1990 in a series of initiatives to control the growth of CHAMPUS medical costs. For example, we plan to contract a urologist and a Ear Nose and Throat specialist and expand surgical, OB/GYN services at Nellis AFB. A number of potential projects are listed in attachment 1. In addition, a recently approved CHAMPUS Alternate Use Program will help expand services at selected bases. Both these programs will provide greater health care capability at our own military treatment facilities and control CHAMPUS costs within the catchment area concept. This concept provides an opportunity for local medical managers to provide better care in a more efficient manner within available resources.

MANAGEMENT EFFICIENCIES
GROUP A

MAJCOM	UNIT	PROJECT
AFA	Academy Hosp	Birthing Rooms
ATC	Lowry Clinic	Expand Primary Care for Dependents
	WHMC	Add Rheumatologist
		Add Four OB/GYN Nurse Practitioners
		Autologous BMT
		Physiatry Initiative
AFSC	USAFSAM	Central Lab Upgrade
MAC	Scott	Expand OR Support Staffing
	Kirtland	Shift CHAMPUS Workload to VA Center
	National Capital Area (Andrews)	Ask-A-Nurse Pilot Project
AFLC	Wright-Patterson Medical Center	CAM Infrastructure
TAC	Nellis	Expand Surgical Services
		Contract ENT
		Contract Urology
		Expand OB/GYN
	Five TAC Hospital	QA Support Staff
	Tyndall	Establish on-base Satellite Clinic
		Expand OR Capapbility

	Five TAC Hospital	Expand Health Care Finder Function
TAC	Homestead	Establish on-base Satellite Clinic
	Langley & Shaw	Contr RNs to Provide Prenatal OB Classes
	Five TAC Hospitals	Weekend Anesthesia Coverage
SAC	Multiple Locations	Nurse Anesthetists, Recovery Room Nurses, and OR Technicians Augmentation
Air Staff	CONUS MTFs	ER Initiative
	CONUS MTFs	Health Promotion Coordinators

TRANSPORTATION FUNDS

Question: During the last few years there has been a substantial shortfall in second destination transportation funds, those funds used to move materials and supplies from logistics centers, between bases, from bases to repair facilities and from the United States to overseas locations. General Bracken testified during last years hearings on depot maintenance that large amounts of munitions and large numbers of vehicles were being held at the ports and could not be moved overseas because of a shortage of transportation funds. Has this problem been corrected? If not, how serious is it? Are sufficient funds included in the Fiscal Year 1990 budget request to correct this problem?

General Watts: Due to fiscal constraints, minimal progress has been made towards reducing cargo backlogs created by Fiscal Year (FY) 1988 second destination transportation (SDT) budget shortfalls. The current projection of backlogs (i.e. outright deferral of vehicles, munitions, and other War Reserve Material) is $21.9 million for FY 1989, $25.7 Million in FY 1990 and $46.6 Million in FY 1991. However, this is only a portion of the total SDT funding shortfall which grows from $54 Million in FY 1988 to a projected $95 Million in FY 1991. Another major SDT funding shortfall area is the mode of shipment for airlift investment spares and replacement parts. As a cost avoidance measure to conserve scarce SDT funds we are shipping many high value weapon system spares/replacement parts by sealift but at a loss of our overseas command's mission readiness and sustainability. Shipping parts by channel airlift requires only 10 days of shipping time versus 49 to 60 days by sealift. Only by airlift can we rapidly respond to spot shortages of spares/replacement parts for our widely dispersed aircraft fleet. Major impacts on the operating command are decreased aircraft availability rates and increased cannibalizations for parts. An Air Force effort to prioritize/restructure transportation movement procedures is underway and we do have $8.9 Million of real growth currently programmed in FY 1990 to begin to address this problem.

Burden of National Defense

Question: The Congress is increasingly advocating that our allies pick up more of the burden for their national defense. There are various programs in place and being considered to have host nations offset the cost of U.S. presence.

When these funds are made available by the host nation, generally in their currency, how are they controlled and are these amounts included in your budget request?

General Watts: In most cases the control of funds is by the respective host government and is not included in the Air Force budget. The host nation, in coordination with the Air Force theater commander, agrees to charges that are approved for offset.

RESERVE FUEL STORAGE TANKS

During the past few years the Air Force has constructed a number of fuel storage tanks for war reserve fuel both in the United States and overseas. As a result of budget decisions starting in Fiscal Year 1987 there has been a lack of stock fund dollars to fill these tanks. It is my understanding that when these tanks are left empty they can be damaged, or rust, and it is very expensive to clean them. Also, while the tanks can be preserved if they remain empty, this is a very costly option and is not a recommended one.

Question: Has funding been provided to fill these tanks either in past years or in the Fiscal Year 1990-1991 budget request?

General Watts: The Air Force has successfully managed filling tanks with available stock fund dollars. Anticipated shortfalls in late 1988 through 1990 were not realized because of delays in completion of some tankage construction. Approximately 13.1 million gallons ($8 million) of planned fuel fill for NATO-funded tankage have been deferred to 1991/92. This situation will preclude the majority of previously expected empty-tank conditions.

Question: If all these tanks have not been filled, where are the empty ones located, what is their capacity, and what would be the cost to fill them?

General Watts: Sidi Slimine Air Base, Morocco, is the only location with unfilled tankage. Currently, 8.4 million gallons of tankage exists with only 5.7 million gallons of fuel funded. Additional tanks totaling 21 million gallons will come on-line in the next two years. Approximately $14.5 million will be needed to fill the air base. Funding has been included in the Fiscal Year 1990-1991 budget request.

SYSTEM DESIGN

Question: For one of the Logistics Command's modernization projects, the Depot Maintenance Information System, the estimated cost has increased from $82.2 million to $242 million and the completion date has slipped over four years, from 1989 to 1994. We understand that over $50 million has been spent to date and the project is still in the concept development phase. Why is the Air Force having so many problems in designing this system?

General Watts: Depot Maintenance Information System (DMMIS) system design is progressing in a controlled and orderly manner. The original DMMIS program concept was to develop and integrate three interrelated systems: Production Management Information System (PMIS), Financial Management Information System (FMIS), and Resource Management Information System (RMIS). The November 1984 Milestone I estimated cost for the total project was $85.4 million. The ARINC corporation study in March 1985 concluded the requirements for PMIS, FMIS, and RMIS were too interrelated to be done in three pieces without a high level of risk, and proposed the use of Computer Integrated Manufacturing (CIM) as an alternate solution.

Air Force Logistics Command (AFLC) requested Deloitte Haskins and Sells (DH&S), conduct an independent review of the ARINC study in August 1985. The DH&S study while agreeing with the basic conclusions of the ARINC study, suggested the use of commercially available Manufacturing Resource Planning (MRPII) software in place of CIM. The August 1985 DH&S report estimated that MRPII software could satisfy AFLC organic depot maintenance operations requirements based on faster implementation, proven system interface, validated system and user documentation, and accepted commercial practices.

Senior functional management restructured the program baseline into three phases to incorporate the MRPII concept: Phase I would provide interim capabilities using organically developed software; Phase II would prototype the MRPII software in the Industrial Products and Landing Gear Division at Ogden UT; and Phase III would implement MRPII software throughout remaining Air Force Logistics Centers product divisions. The restructure resulted in an extension of FOC schedule to October 1990. Cost baseline was increased by $106.1 million for: Local Area Network (LAN) connectivity; increased user training requirements associated with MRPII concept; and one of five ongoing maintenance near-term initiatives under the DMMIS umbrella.

Although the Air Force realized the estimated cost baseline was understated based on the Air Force Audit Agency study in 1985, the Air Force position was to promote maximum competition and maintain confidentiality of estimated program costs by not changing program cost/schedule baseline. A Firm-Fixed-Price Incentive-Fee contract was awarded 28 Jan 88 to Grumman Data Systems. Based on contract award, program baseline was changed to $242.4 million and FOC rescheduled for September 1993. There has been no change to DMMIS program cost and schedule baseline since contract award. The DMMIS program is currently in the definition/design phase, with DMMIS Phase I FOC achieved in July 1988.

Question: What assurances can the Air Force provide that the cost of this system will not increase further or that additional slippage will not take place?

General Watts: AFLC has aggressively taken steps to mitigate any significant changes in schedule or costs. The Air Force negotiated a firm fixed price contract with a $5 million target to ceiling range (80%/20%) government/contractor sharing). Checkpoints have been built into the contract. For example, Ogden ALC implementation of DMMIS is divided into three options. A successful Critical Design Review, at the end of the basic option, must be obtained before option one and two are exercised. The DMMIS contract is structured such that each site is a separate option. This provides additional flexibility for funding and scheduling. DMMIS cost schedule/reports are closely monitored for any deficiencies or potential problems by the program manager. Cost estimating models are regularly used to perform cost projections to ensure the baseline is sound. Quarterly financial reviews are conducted on DMMIS with AFLC Logistics Management Systems Center Commander and the development contractor.

Restrictions on Training Flights

Question: It has been reported that the Ramstein Air Show in the Federal Republic of Germany has been cancelled. In addition, because of air crashes and complaints from German citizens, some restrictions have been imposed on our training flights.

What impact do these restrictions have on our training flights?

What impact do these reductions have on our flying hours and O&M costs?

Answer: There have been no recent restrictions placed on our training flights as a result of air crashes and noise complaints from German citizens. In early 1986, US and other Central Region air forces voluntarily restricted the time their high performance fighter aircraft spend at low altitude to fifty minutes per sortie. In addition, low level flying was restricted during the noon hour break (12:30 -1:30 PM) during the summer months. Neither measure has any impact on our training sorties. We are continuing cooperative efforts with all NATO allies to institute measures which do not impact the training of our forces yet ease the noise burden on the German populace.

AIRCREW TRAINING USING CONTRACTORS/SIMULATORS

Aircrew training using contractors and simulators has gained increased importance in the military services because of budget constraints and other restrictions such as those on air space. In 1985, the Air Force expanded the use of contractors and simulators for aircrew training.

Question: Has the Air Force been able to substitute simulator hours for flying hours?

Answer: No. Current simulators are not yet capable of providing the total flying environment and resultant stress-related conditions required to experience and mature aircrews in place of flying hours. Consequently, training devices have not been used to unilaterally replace flying time since the unsuccessful attempts in the 1970s to substitute simulator training for flying hours in Undergraduate Pilot Training and B-52 training programs.

However, simulators have supported a restructuring of training by capitalizing on up-front, "complementary" training resulting in safer, more productive flight time, thus achieving higher readiness levels with the same number of flying hours.

Question: Has any analysis or study been performed concerning the possible substitution of simulator hours for flying hours?

Answer: The Air Force continually evaluates and refines training requirements and training system capabilities based on directed broad area reviews of training and simulator programs, individual and unit performance, trend analysis programs, standardization/evaluation check rides, graduate evaluations, accident investigations, operational readiness inspections, unit effectiveness inspections, routine periodic reviews, mission changes, equipment changes, and technological improvements in order to field the most effective training system possible.

Question: How much is included in the Fiscal Year 1990-1991 O&M budget request for simulator training?

Answer: Operation and Maintenance funding request for contractor supported simulator training in FY90 is $223.223 million and in FY91 is $243.888 million.

Information Technology Programs

Question: For Fiscal Years 1990 and 1991 the Air Force is requesting about $2.8 billion, including about $1.8 billion in O&M funds for FY 1990 and $1.9 billion for 1991, for Information Technology programs. About $1.2 billion of these amounts will be used to procure commercial services. What type of commercial services do we procure and what type of contracts are used? Is it more advantageous to procure these services rather than do it in house?

General Watts: The $1.2 billion reflected in the Air Force Information Technology Programs under commercial services for FY 1990 and FY 1991 is a total for each year which incorporates several appropri-

ations. The Operation and Maintenance (O&M), Air Force amount within this section is $995 million for FY 1990 and $1.0 billion for FY 1991. Commercial services funding provides for contract data processing and telecommunications services used Air Force wide.

Within O&M, one category primarily relating to expenses associated with the use of hardware and telecommunications reflects a budget of approximately $527 million in FY 1990 and $565 million in FY 1991. This includes obligations for network services or facilities where payments are made directly to private industry, including obligations for government-owned contractor operated facilities, facility management contracts, teleprocessing services program, and maintenance contracts to support government owned equipment. A portion of these funds is for the Air Force commercial telephone bill for toll calls, etc., which provide no option to do in house.

The other O&M category which requires $468 million in FY 1990 and $461 million in FY 1991 provides for systems analysis and programming support and studies. This includes contracts to provide applications and/or systems development support in software design, software modification/upgrade, analysis and programming services, contracts to provide management of feasibility studies, technology forecasts, requirements definition and commercial training.

Overall increases of resources in computer specialties were moderate over the past years while the increased use of automation was very significant. We need to take advantage of the economies and efficiencies industry can offer, particularly during times of scarce Air Force resources. Within industry new techniques are found in technology and are being applied to hardware and software to improve productivity. Use of industry allows us to keep abreast of this rapidly changing technology without huge investments in constant training efforts and incentives to retain skilled personnel. It is a sound decision to utilize the knowledge base of industry to maximize the use of available state-of-the-art technology. We feel that our current mix of contractor vice in-house efforts is about right.

ALLOCATION OF AF CLEAN-UPS

Question: How much of the FY 90 DERA (Defense Environmental Restoration Account) is allocated for the Air Force clean-ups? How does this match up against your requirement for this fund?

Answer: OSD has given a tentative allocation of $173.8M for the Air Force. The Air Force has identified requirements for approximately $285M.

ALLOCATION FOR HAZARDOUS WASTE EFFORTS

Question: How much money will the Air Force be allocating for hazardous waste minimization research efforts in FY 90?

Answer: The Air Force will allocate $2.7M ($1.8M RDT&E and $.9M O&M) for hazardous waste minimization research efforts in FY 90.

TRACKING COST OF EACH SERVICES

Mr. Ray: I'm also drafting legislation that would require the Department of Defense to develop and build a method for tracking what it costs each of the Services to comply with environmental laws, and to report these requirements annually, when the funding request comes over. I understand there is concern among some of the services that they may have difficulty with this amendment. Since you must have requirements to have a budget request, I'm not clear on what the problem would be. Do you think the Air Force would be able to provide this information on environmental requirements vs funding and how difficult will this be to do?

General Watts: We also see the need to better account and budget for environmental compliance requirements. As we move to do so, we must first address definitional and procedural issues. As a start, we must clearly define what we include as environmental compliance. A question illustrates the point. Do we include removing asbestos insulation from a steam line, routine sewage treatment, the cost of office supplies for the environmental manager, or repair of a leaking fuel tank? My point is that environmental compliance means different things to different people. Any definition we institute will need to answer more questions than it raises. Otherwise, our accounting and budgeting system will be at best inconsistent.

Procedural issues present a somewhat more complex dilemma. Many of the costs of environmental compliance are intertwined with and a basic part of everyday operations. The situation is further complicated because environmental compliance cuts across a number of functional areas (including Real Property Maintenance Activities, medical, depot maintenance, and others) and appropriations (O&M, RDT&E, MILCON, MFH, and others). Again, a few examples illustrate the situation. Sewage disposal is a nondiscrete part of the Real Property Maintenance Activities account at the Air Staff level. We routinely remove asbestos insulation as a part of a larger building repair project. Hazardous waste minimization and disposal efforts are now worked by both the civil engineering and aircraft depot maintenance functions. The issue is how do we best extract only the environmental aspects from existing programs without adversely affecting either current operations or environmental compliance? We believe it can be done but we need to do it smart so we ensure our folks don't get more involved with accounting issues rather than managing environmental programs.

BUDGET TO MEET THE AF'S O&M NEEDS

Question: The distinguished visitors quarters at K.I. Sawyer Air Force Base were recently renovated. Officials purchased 24-karat gold plated lavatory fixtures for $3,000 and custom oak and brass doors.

The subcommittee has learned that this is but one instance of extravagant expenditures for these activities.

How can you justify these expenditures when the budget is being reduced for flying hours and other items directly related to force readiness? What controls do you have over these type of expenditures.

Answer: While we cannot justify some of the expenditures, we view this as an isolated incident and not indicative of the Air Force way of conducting business. The Air Force does stress quality standards which are defined as simplicity in design, durability, reliability, maintainability, and completeness. We also emphasize the need to avoid overstatement, characterized by excessive expense and grandeur. Unfortunately, in this particular instance, these standards were not followed and the project could have been more effectively and economically managed. The Air Force has since restated its policy that emphasizes the standard outlined above.

GOLF COURSE IMPROVEMENTS

Question: General Watts, your prepared statement strongly advocates a viable morale, welfare and recreation program and requests additional funding. The subcommittee has learned that $4.5 million was spent on golf course improvements at Langley Air Force Base. Reportedly, $3 million was from appropriated funds. Items allegedly purchased with tax dollars included ball washers, carp for the pond, and million dollar water hazards, and then used a special combat construction "flash team" to build bridges over the water hazards. I find it difficult to believe that this type of abuse could occur when we are faced with the hard choices on the defense budget. Is this a pattern in the Air Force? What are you doing about this?

Answer: The Air Force shares your concerns regarding responsible management of limited defense dollars. The Air Force also appreciates your support of our MWR programs as they are indeed very important to the quality of life in the military community. The issues raised are not representative of an endemic problem within MWR in the Air Force. Our programs are generally well managed. Prior to Congressional approval of the revised OSD funding policy (OSD August 10, 1987 letter), appropriated funds were authorized for the maintenance and repair of revenue-producing facilities without any restrictions. Current policy more closely defines what work can be done: e.g. work needed to maintain and repair facility systems (electrical, mechanical, roofing, foundations etc.) If the audit being conducted at Langley Air Force Base determines that any funds were improperly classified and funded from appropriated funds, this amount will be reimbursed from nonappropiated funds.

Space Conversion

During Fiscal Year 1990, over 1,700 spaces are scheduled to be converted from military to contract. You mentioned in your formal statement that for the military conversions there is a transfer from the Military Personnel Appropriation to the O&M account.

Question: What does the transfer from the Military Personnel Appropriation cover when military billets are converted to civilians?

Gen. Watts: The transfer of dollars from the Military Personnel Appropriation covers wages and benefits when military billets are converted to civilians.

Question: Assuming such conversion reduces costs overall, do they increase O&M?

Gen. Watts: Such conversions will increase O&M because this is the appropriation from which most Air Force civilians are paid. O&M does not receive a dollar-for-dollar transfer from the Military Personnel Appropriation because the civilian billet is priced at the average salary at the particular command in the pertinent major force program. The difference in the dollar values between the two appropriations amoounts to a budget decrease.

Question: Do such conversions increase training costs?

Gen. Watts: Such conversions should not increase training costs because training is identified by need within a given organization. Training funded from O&M is not segregated into military and civilian segments.

Increase in Launches

Question: During Fiscal Year 1989 there was a substantial increase in the number of launches planned for the eastern and western space and missile test centers. Activities at both of these test ranges is scheduled to continue at a high level during Fiscal Years 1990 and 1991. During the last few years, however, there have been numerous delays and cancellations of launches at both these facilities.

What impact do these delays and cancellations have on O&M costs? Do cancellations reduce O&M costs and, if so, how is this money used?

Gen Watts: Customers are charged for delays or cancellations of scheduled work as outlined in the reimbursement policy directed by the Department for all Major Range and Test Facility Base activities. Launch operations require a "standing army" of military, civilian and contractor workers, who must be paid regardless of whether launches occur as planned. A minimum number of personnel must exist for the US to have a viable launch program; they are paid for through a combination of direct AF, O&M and reimbursable funding. A cancellation would require the launching activity to cover the payroll as originally planned. In this way, no additional direct AF O&M costs are incurred. Likewise, none are saved as the paying customers' reimbursements are used for the expenses incurred or planned.

ENGINEERING DRAWINGS

Question: The Logistics Command designated the Engineering Data Computer Assisted Retrieval System as fully operational in October 1987 at a low cost of nearly $30 million. However, the subcommittee understands that the existing engineering drawings must be optically scanned or manually input into the new system. It is estimated this will cost between $10 and $25 million and take from two to five years to load this data into the new system. Why wasn't the cost of loading this data included in the original cost estimate?

General Watts: Engineering Data Computer Assisted Retrieval System (EDCARS) was developed to provide a system capability which would allow each of the Air Logistics Centers (ALCs) to organically load active engineering files at their location within two years after implementation. Organic costs were never part of the acquisition baseline cost estimate for acquiring EDCARS, thus the cost of loading the data was not included. This exclusion of organic resources from the acquisition baseline is consistent for all the Logistics Management System (LMS) modernization programs. To date, more than 45% of existing active drawings have been loaded into EDCARS. The data load process has been much slower than originally anticipated due to the poor quality of the drawings mounted on the aperture cards. An aggressive manual quality control check prior to loading the data had to be initiated thus even further slowing the data load process. The current plan is to employ a mix of organic and limited contractor resources to complete the data load, with estimated completion by October 1994.

Question: Where will the money come from to load this data?

General Watts: Continued use of organic resources is programmed through FY94 and will be augmented with contractor resources as necessary. Additional funding requirements to support increased contractor efforts to expedite the data load process are under evaluation and, if required, will be identified in the FY92 POM.

B-1B GROUNDED

Question: Last year the General Accounting Office reported that one-third of the B-1B aircraft fleet (32 aircraft) would be grounded for certain modifications and lack of spare parts during the last six months of Fiscal Year 1988 and all of Fiscal Year 1989. Will the B-1B aircraft be able to fly all of the hours programmed for them in Fiscal Year 1989?

Gen. Watts: Based on a preliminary evaluation, the Air Force is optimistic about its ability to productively execute its FY 1989 B-1B flying hour program. This evaluation takes into account the fact that the B-1B is slightly behind the projected flying hour game plan due to aircraft mishaps and subsequent fleet-wide inspections. The Air Force is currently conducting an in-depth program review and anticipates its completion by April 30, 1989.

Question: What assumptions are used in the Fiscal Year 1990 budget estimates for the B-1B?

Gen. Watts: The Air Force holds the B-1B crew ratio, training requirements and flying hour program essentially constant through FY 1990 based on aircraft availability remaining unchanged.

Question: Will these aircraft be able to fly all of the hours requested in the Fiscal Year 1990 budget?

Gen. Watts: The Air Force anticipates flying its FY 1990 B-1B flying hour program.

Engines to Power F-16

Question: There have been a number of reports concerning problems with the engines that are used to power the F-16. Has the problem of faulty engines been recognized in the Fiscal Year 1990 O&M budget?

General Watts: The F-16 aircraft is powered by the F100-PW-200 and F110-GE-100 engines. The reported engine problems are associated with the F110-GE-100. We do not have funding programmed in Depot Maintenance to fix these problems for the following reasons: (1) The technical solution and associated costs have not been identified; and (2) the Fiscal Year 1990 budget does not have funding programmed for contingencies in a fiscally constrained environment.

FUNDING REDUCTIONS

Question: In response to Fiscal Year 1988 funding restrictions, the Air Force increased field-level maintenance workarounds. These involve: (1) accomplishing increased repairs at bases, including repairs normally done at the depots; (2) cannibalizing aircraft, engines and components for spares; (3) flying systems beyond their scheduled repair or overhaul; (4) retaining increased numbers of unserviceable items awaiting parts rather than returning them to depots. What was the amount and type of maintenance performed by the operating commands during Fiscal Year 1988 that would have been performed at the depots? During Fiscal Year 1989 to date? What additional facilities and personnel were required to perform the work, what did it cost and how did the operational commands fund it? Did the Air Force compare the cost and quality of work performed at the operational commands to costs and quality of work previously performed at the depots? If so, what were the results? What are the advantages of having this work done by the operational commands?

General Watts: Workarounds by operational units will continue through FY 91 because of austere funding. The amount and type of work performed at the field level is not tracked specifically by the Air Force but is revealed in the operational commands indicators i.e., cannibalization rates, WRSK withdrawals, holes in aircraft, and overtime. These indicators have been showing a steady increase. In FY 88 AFLC and TAC agreed to establish a Regional Maintenance Facility (RMF) to (1) reduce large backlog of Time Compliance Techinical Orders outstanding against the F-15 aircraft (2) avoid saturation at the WR-ALC facility (3) save the cost of forcing the aircraft back to WR-ALC. TAC and AFLC shared in the costs. Facilities and base personnel were paid by TAC and AFLC paid for the depot personnel. Presently AFLC is doing these mods at Sacramento Air Logistics Center. There is no reason to compare individual job cost or quality of the work performed because, other than F-15 mods, most of these tasks are O&I level tasks. These tasks are performed at depot because it is economical to do them at the depot when the aircraft or end item is undergoing overhaul and to improve aircraft availability. There is no advantage in the operational commands doing the workarounds, but workarounds must be accomplished to support operational commitments.

BACKLOG OF UNREPAIRED PARTS

Question: General Hansen the Commander of the Air Force Logistics Command, has stated that a $300 - $500 million backlog of unrepaired parts is acceptable. What is the impact of a backlog of this size on operational readiness and sustainability? Is a backlog of this magnitude acceptable to the Air Force?

Gen. Watts: Larger than desired backlogs are necessitated by affordability within the very constrained Air Force budget. Recent experience shows that we can support current ops tempo levels through intensive management of critical items, increased cannibalizations, and continued draw-down of sustainability stocks. As a consequence the near term impact on operational readiness indicators such as mission capability rates is relatively small. Some of our leading indicators; i.e., cann rates, are beginning to erode and over the long term mission capability rates may begin to erode if depot maintenance is not adequately funded. Our FY 90/91 budget fully supports planned operating tempo with the assumption that various work arounds will be continued.

Depot Maintenance Backlog

Question: This subcommittee and others in Congress have continually questioned the amount of the depot maintenance backlog that is reported by the Air Force each year. I have tracked these amounts over the last few years and note with great interest that in a period of declining resources the backlog has substantially decreased, going from $717 million in Fiscal Year 1988 to $462 million this year, and is estimated to be only $381 million at the end of Fiscal Year 1990. I understand the Air Force has changed the way it counts its backlog but would you please (1) explain the decrease? (2) What accounts for the difference between the Air Force Logistics Command reported $186 million of unfunded depot repair work at the end of Fiscal Year 1988 and the amount carried forward of $274 million in Fiscal Year 1989 budget request? (3) How did the Air Force estimate the $381 million unfunded executable requirement at the end of Fiscal Year 1990 as shown in the budget request?

General Watts: In the FY 89 Amended PB we reported the FY 88 and FY 89 backlogs would be $717 million and $462 million respectively. Our best estimate of the actual backlogs at the point in time of preparation of the FY 90 PB was $274M and $269M respectively. Decreases in the FY 88 backlog estimate are attributable to decreases in flying hours, unit sales prices, and fluctuating rates; higher than expected reliability and maintainability; and outright deletion of work requirements. In addition, for the first time, we validated the actual on-hand, vice the projected, exchangeable repair deficit. Based on our FY 88 actual experience, we rebaselined our FY 89/90/91 stand-alone operating requirements to be consistent with actual generations, operating tempo and force structure adjustments. In addition, we increased our carry-over discount factor from 20 percent to roughly 40 percent across the FYDP to be consistent with actual, versus estimated, FY 88 experience. The result is reduced, and we believe more credible, FY 89/90/91 requirements and backlog estimates.

The $186M is an internal AFLC number that does not include other requirements such as ICS, Big Safari and embedded SRU repairs. As such, the $274 million figure represents the total amount of unfunded work in FY 88 that was carried forward into FY 89 and reported to Congress.

SHORTFALL IN APPROPRIATED FUND SUPPORT

Question: General Watts, in your prepared statement you said that the Air Force faces a minimum $95 million annual shortfall in appropriated fund support for Morale, Welfare and Recreation activities such as libraries, gymnasiums, and child care centers. You attribute this shortfall to the ceiling on appropriated funds for Morale, Welfare and Recreation programs.

If the ceiling is removed, does the Air Force plan to ask for $95 million more than is currently authorized?

Answer: As a point of clarification, working with OSD, the estimated appropriated fund shortfall for mission sustaining and basic community support Morale, Welfare and Recreation activities has been revised upward since my testimony from $95 million to $138 million. The increase is partially due to the impact of recent Congressional approval to retain appropriated fund support for Morale, Welfare and Recreation Business activities at designated remote and isolated locations ($15.8M). The remainder of the difference is due to increased Morale, Welfare and Recreation manpower authorizations ($14.3M) identified in a just completed Air Force Manpower priceout study and estimated child development program growth ($12.9M). The $138M shortfall is an estimate of the funding required to fully implement the revised, Congressionally approved, DoD policy for funding mission sustaining and basic community support Morale, Welfare and Recreation activities. If the ceiling is removed, these requirements will be able to compete for funding with other Air Force requirements on a priority bases.

Question: Would child care then be funded at a higher level than is currently funded?

Answer: Unfunded child care requirements would be able to compete for funding with other Air Force requirements on a priority basis.

Question: Would the appropriated fund reductions for clubs and golf courses then be rescinded?

Answer: No

AFTERNOON SESSION

ARMY O&M

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. HUTTO. The Subcommittee on Readiness will come to order.

This afternoon the subcommittee will continue its consideration of the fiscal years 1990–1991 Department of Defense Operation and Maintenance budget request with testimony from Army witnesses.

At this time I would like to welcome Lt. Gen. James F. McCall, Comptroller of the Army, and Brig. Gen. Joe Robles, Assistant Director for Operations, Army Budget Office.

General McCall, I understand that your peers have given you the nickname of "Cash McCall." Given the state of the Army budget and how it is faring in DOD, it is very appropriate at this time to have "Cash McCall" with us.

Before we proceed further, I would like to take this opportunity to congratulate General Robles on his recent and well deserved promotion to Brigadier General. General Robles, we congratulate you.

Since Mr. Kasich, our ranking minority member, is not here at the moment, we will admit his statement for the record.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

I would like to thank Chairman Hutto for his remarks, and I want to take this opportunity to welcome Lieutenant General McCall and Brigadier General Robles, who will review for us the Army's fiscal year 1990 Operation and Maintenance budget request.

Like the other services, the Army is facing a very difficult budget environment, because the modernization of the early 1980s has created a "wake" of O&M funding requirements just as budget toplines are stagnating. A glance at the graph on maintenance backlog provided in General McCall's testimony will confirm this. It is clear that modernization and readiness are on a collision course.

It would be tragic if this country frittered away the significant gains in combat capability that were achieved in the 1980s. The United States has benefited from a policy of peace through strength. I hope today's witnesses can give this subcommittee the very best advice on maintaining that strength.

Thank you, Mr. Chairman.

Mr. HUTTO. We are glad to have you gentlemen with us. General McCall, if you will proceed in any manner you see fit.

STATEMENT OF LT. GEN. JAMES F. McCALL, COMPTROLLER, U.S. ARMY, ACCOMPANIED BY BRIG. GEN. JOSUE ROBLES, JR., ASSISTANT DIRECTOR FOR OPERATIONS, ARMY BUDGET OFFICE

General MCCALL. Thank you, Mr. Chairman.

Mr. HUTTO. I hope you brought some cash with you.

General MCCALL. No, sir. That is the accolade I get every meeting in the Pentagon.

Sir, I would also like to have my formal statement placed into the record, if I might.

Mr. HUTTO. Yes. Without objection, it will be entered in its entirety in the record.

PREPARED STATEMENT OF LT. GEN. JAMES F. MCCALL

OPENING REMARKS

Mr. Chairman and Members of the Committee, I am delighted to have the opportunity to present the FY 1990/91 Operation and Maintenance, Army (OMA) Appropriation biennial budget request.

The OMA appropriation provides the essential funding to support the Army Leadership's vision of how the total Army should prepare for land combat both today and tomorrow. To maintain and sustain modern, ready ground forces our Nation must:

o Recruit and retain high quality soldiers;

o Train them in a realistic, demanding environment;

o Field them in a force structure that demonstrates resolve and flexibility through forward deployed units, backed by a strategic reserve capable of rapidly projecting ground power;

o Modernize and support them to ensure qualitative advantages over our adversaries; and

o Develop the leaders needed to command and inspire our forces in war and peace.

Over the past years, with your help, we have improved our readiness by recruiting and retaining quality soldiers, enhancing soldier and civilian skills and motivation, and modernizing the force with equipment of much greater capability.

Maximum readiness depends on a reasoned balance among the investment, personnel, and operation and maintenance appropriations. At the same time, given the austere budgetary environment, we must be good stewards to conserve the resources that we have. We feel our FY 1990/91 OMA budget request provides the funding that we need to operate and maintain this Army that we support.

MANAGEMENT INITIATIVES

We, in the Army, take our role of stewardship very seriously. I am proud to be able to bring to your attention some areas where we have made inroads in the area of financial management.

o In an effort to maximize efficiency and conserve resources, I would like to share with you some of the steps we have taken to improve operations. In Public Law 99-627, Congress permitted the Administrator of the General Services Administration (GSA) to delegate authority to agencies to conduct prepayment audits when cost effective or otherwise in the public interest. Under the auspices of the DOD Transportation Cost Reduction Action, the Army is conducting a test which requires the pre-audit for all freight bills over $10,000 in value, guaranteed traffic bills and all rail bills for transportation into and out of Fort Irwin, CA, home of the National Training Center. The purpose of this pre-audit is to ensure we do not overpay carriers to move materials. In the past, these transportation bills were reviewed after the fact. The US Army Finance and Accounting Center (USAFAC) is using an in-house capability of civilian overhires to conduct a one year test to determine the actual level of savings which would result from conducting the pre-audit mission. Funding for the test was provided from within the Army's current FY89 program ($500 thousand). It is anticipated that savings from the program will be in the form of cost avoidance. We are very excited about the prospects of this program in the transportation arena.

o A principle that is seeing more and more emphasis in the Army is the concept of chargeback for products or services. Instead of centralizing funds for particular missions we now decentralize the funds to the commands that use the services. This means that users are charged for their products and services instead of having them paid for by a centralized account or by a single command. As execution occurs, the command or installation using the services is billed or charged for the fees associated with that service. Since users pay for their charges there is an economic incentive for them to obtain products and services only at the level required and at least cost. This concept is being tested in the Information Mission Area and in the Hazardous Waste Disposal Program.

o Another management initiative deals with the way the Army will pay for official mail beginning in FY 1990. Currently, postal charges are incurred at all levels of the Army but are paid centrally. Major commands are issued mail targets but do not really have the incentive to intensely manage postal charges. The new method will change how the Army pays for official mail from a "charge" or delayed payment mode to the commercial method of prepaid or pay-as-you-go way of doing business. This new approach offers several stewardship advantages. We dispel the perception that mail is free to Army users. We bring fiscal and management responsibility down to the garrison level where costs are incurred thereby giving commanders an economic incentive to find the least costly method for mailing.

o We are also making progress in the area of civilian personnel management. Currently, the Army is testing a civilian personnel modernization initiative called Managing the Civilian Work Force to Budget (MCB) at 15 Army activities. It involves delegation of authority for position classification and management of civilian personnel resources to the lowest practical level of management. Administrative controls on employment levels, high grade positions, and overtime are replaced by single dollar limit for civilian personnel costs. This allows commanders and local supervisors to structure their work force according to mission requirements without arbitrary and artificial constraints. MCB also requires activities to develop incentives for increased productivity by returning savings to well managed organizations. The total payroll expenditures by the 15 initial activities during FY88 was $5 million under budget. Twenty percent ($1 million) was validated as savings achieved through proactive management initiatives, and shared between the activity and activity employees through reinvestment plans and incentive awards. MCB will be expanded in FY90 to an additional 30 activities.

o Finally, I would like to give you a few examples of how our soldiers and civilians are utilizing their computers and automated systems to improve the way we manage our resources.

oo As part of the installation support module effort, dedicated civilians at the US Army Field Artillery Center at Fort Sill, OK developed an automated system to process high-priority requisitions. This streamlined process filled critically needed items in a shorter amount of time. Time savers allow us to concentrate on our most pressing missions.

oo At Fort Hood, TX, we are undergoing a prototype test in logistics management. This initiative substantially reduces the supply pipeline and provides the supply clerk with parts visibility installation wide. The goal is improved readiness.

I wanted to give you a sampling of the many areas in which the Army is pursuing efficiencies and economies in order to fully utilize our precious resources. Smarter ways to do business is the Army's financial management goal.

CHANGES FROM FY 1988/1989 BIENNIAL BUDGET REQUEST

Chart one shows the growth in the OMA budget from FY 1987 through FY 1990/91.

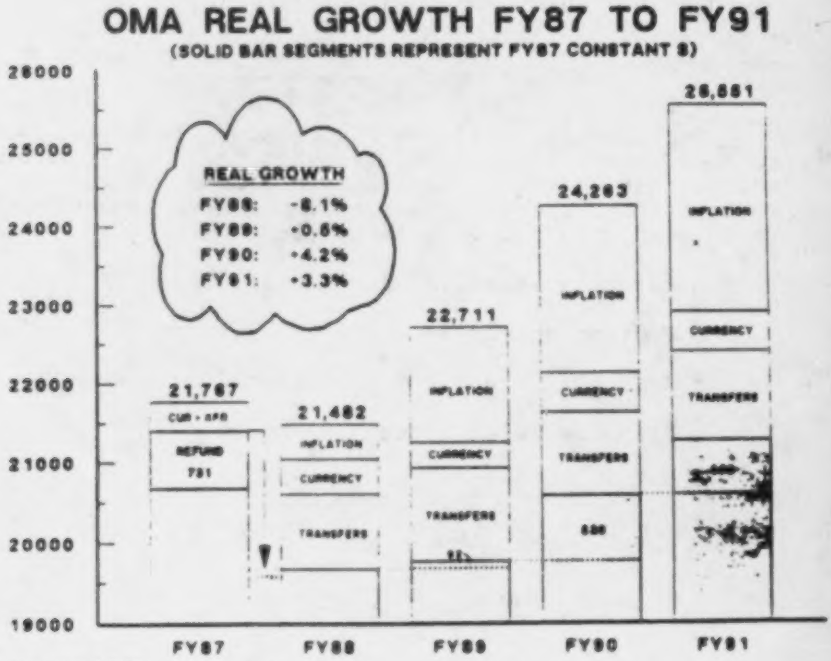


Chart two provides you a more detailed look at how we arrived at the percent real growth:

WHAT HAPPENED TO FY 1989

($ MILLIONS)

FY 1989 APPROPRIATION		$22,062
TRANSFERS:		
ENVIRONMENTAL RESTORATION	$229	
FUEL INFLATION SAVINGS	$321	
FY 1989 CIV PAYRAISE	$136	
SPECIAL OPERATIONS FORCES	$18	
BUREAU OF LAND MANAGEMENT	$-6	
SUBTOTAL TRANSFERS	$698	
PRICE GROWTH	$-49	
FY 1989 CURRENT ESTIMATE		$22,711

FY 1990/91 BUDGET REQUEST

Over the last few years, the Army leadership has had to make some difficult decisions on the allocation of scarce resources while still maintaining its current modernization effort. The resources have been allocated to support the following Army priorities:

- o Maintain essential force readiness;
- o Protect essential sustainability;
- o Slow but do not end modernization; and
- o Minimize force structure impact.

Chart three is a listing of the OMA budget, by budget category, which shows the resulting dollar allocation:

OPERATION & MAINTENANCE, ARMY
BUDGET PROGRAM
($ IN MILLIONS)

PROGRAM	1988	1989	1990	1991
2 GEN PURPOSE FORCES	3,859	3,974	4,163	4,307
3I INTELLIGENCE	301	308	345	369
3C COMMUNICATIONS	977	1,007	1,168	1,251
7E ENVIRONMENT	179	229	0	0
7S CENTRAL SUPPLY	2,979	3,058	3,302	3,401
7M MAINTENANCE	2,022	2,422	2,568	2,782
8T TRAINING	1,116	1,135	1,219	1,262
8M MEDICAL	2,267	2,449	2,588	2,753
80 OTHER	703	715	784	793
95 ADMINISTRATION	839	952	1,006	1,038
10 OTHER NATIONS SUPPORT	240	251	263	273
11 SPEC OPNS FORCES	190	197	212	227
12 BASE OPERATIONS	5,810	6,014	6,647	7,095
TOTAL PROGRAM	21,482	22,711	24,263	25,551

HIGHLIGHTS OF THE FY 1990/91 OMA BUDGET REQUEST

READINESS

TRAINING

Training, the key to our readiness requires resources and programs designed to train leaders, units, and individuals.

UNIT TRAINING

Keeping our units ready for wartime employment is central to the Army's mission. Units conduct training both at home stations and at training areas and centers especially designed to give the unit the experience necessary to perform at top conditions in combat. OMA funding for the fuel, parts, and transportation costs of unit equipment operation is key in this effort. Our combat training centers allow the Army to train for low- to high-intensity conflict under the most demanding and challenging conditions. Facilities include the National Training Center (NTC) at Fort Irwin, CA, the Combat Maneuver Training Complex (CMTC) at Hohenfels, FRG, and the Joint Readiness Training Center (JRTC) at Fort Chaffee, AR. This budget request supports 33 rotations to NTC, 9 rotations in FY 1990 and 12 rotations in FY 1991 to JRTC and provides funding for the continued development of CMTC which will begin full operational capability in FY91.

OPTEMPO

OPTEMPO is a means of allocating resources for a particular training strategy and the resultant readiness levels. This request supports for FY 1990/91 a ground OPTEMPO of 800 miles and an air OPTEMPO of 15.0 hours/crew/month. We are making every effort to explore alternative means of garnishing valuable training from simulators and other training devices. For example, our battle simulation centers improve combat readiness through the decentralized Battle Simulation Centers at Corps and Division levels. These facilities which are designed for command and staff training are configured for the employment of computer simulations, terrain board models, and tactical communications necessary to replace those forces assigned to the staff being trained. At Ft Hood, Texas, the center will enable the portrayal of a mature corps of five divisions (150,000 - 170,000 soldiers) with only 600-700 controllers in the facility roleplaying either friendly or opposing forces.

DEPOT MAINTENANCE

The FY 1990/91 budget supports our unit operations and training for an OPTEMPO of 800 miles and 15.0 flying hours. As fielded systems increase, our requirements continue to grow thereby, increasing the number of secondary and end items that must be overhauled. The materiel maintenance program (overhaul, modifications, conversions) is resourced at 79% for FY 1990 and 78% for FY 1991. With current resources, we are not able to support 100% of our end item maintenance. Secondary items which support near term readiness are maintained at 100%, however, end items will be maintained at 58% of our requirements. Our backlog grows from $381 million in FY 1989 to $513 million in FY 1990 to $584 million in FY 1991. This is clearly an area that needs assistance.

CENTRAL SUPPLY ACTIVITIES

The FY 1990/91 budget supports the highest priority near term readiness requirements, INF treaty initiatives, and the highest priority second destination transportation requirements. We are faced with the challenge to adequately meet ammunition demilitarization requirements, logistic automation requirements to offset declining manpower resources and procurement support functions to meet lead time requirements.

PEOPLE

The soldiers, civilians and their families are the strongest and most important part of our Army. Living and working conditions must be provided to encourage the best qualified and motivated people to enter and remain as active participants in the Army Family and to make Army service their career.

RECRUITING AND EXAMINING

The Army is faced with recruiting in a shrinking eligibility pool of young people. As you are aware, the Army was unable to meet its recruiting goal for FY 1988. Our recruiting and examining funding is at the FY 1984 level of effort. Reduced funding along with a cap restricts our ability to seek the advertising we need to bring in quality recruits and keep the good soldiers that we have already trained. Dedicated, skilled recruiters backed up by sophisticated modern advertising are essential in keeping our current force and attracting high quality recruits who will become our innovative leaders and technicians in the future.

HEALTH CARE

The Medical Care Program FY 1990/91 budget provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, medical examinations performed in Military Enlistment Processing Stations, and other support activities of the direct health care system. This request also supports the currently known CHAMPUS funding requirements. In an effort to bring down rising CHAMPUS costs, the Army supports a partnership agreement program whereby providers are brought into military medical treatment facilities to treat CHAMPUS beneficiaries, for a negotiated fee that is below the respective state allowable limit. Experience is showing that there is a potential for savings in the CHAMPUS program while at the same time increasing utilization of military medical facilities.

ARMY INFORMATION RESOURCES MANAGEMENT

The goal of Army information resources management is to ensure that appropriate, timely, and accurate information is identified and made available for satisfying user requirements in the execution of Army missions. The Army Information Mission Area (IMA) consists of five disciplines: telecommunications, automation, visual information, records management and printing, and publications. IMA resources serve as a force multiplier on the battlefield. In the sustaining base, IMA resources allow the Army to accomplish increased workloads in support of logistics, personnel, medical, and financial areas more efficiently and with less manpower.

FORCE STRUCTURE

OMA funds continue support for Light Infantry Division (LID) initiatives at Fort Drum and continues the heavy forces redesign.

CIVILIAN WORK FORCE

The budgeted civilian employment level in the FY 1990/91 budget supports most critical OMA programs. Any further reduction in the civilian work force will cause a return to "borrowed military manpower" and detract from unit training and readiness. Our current Army goal remains to use our civilian strength wisely by management efforts such as capitalizing on productivity enhancing technology, modest increases in overtime, and continued contracting.

INSTALLATION OPERATIONS

The Army conducts operations at over 300 installations and activities in the United States, Europe, the Pacific, and the Panama Defense Complex. The majority of these depend on OMA funding for the myriad of functions performed by the supporting workforce and contractors. As you are aware, the Base Operations and Real Property Maintenance accounts have been reduced. Although maintaining our facilities is important, we have whittled this account down to the bare minimum. Our Commanders are doing much to improvise and maintain operations at many of our installations.

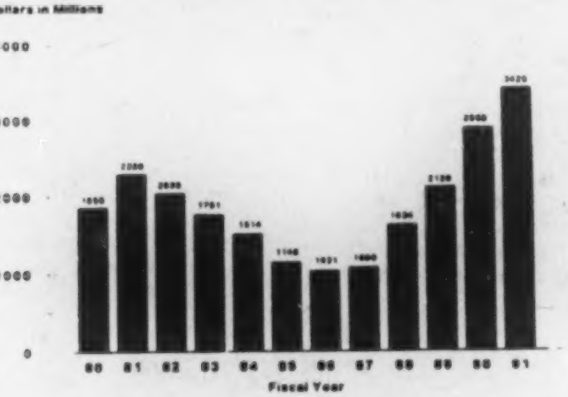
BACKLOG OF MAINTENANCE AND REPAIR (BMAR)

The Army operates and maintains an aging physical plant with extensive holdings worldwide. In this budget the backlog of maintenance and repair is predicted to increase with the current funding requested. It grows over FY 1989 by $778 million and over FY 1990 by $527 million. This results in postponing much of the needed maintenance on aging Army assets.

Chart four shows you the BMAR trail since FY80.

OPERATION AND MAINTENANCE, ARMY

OMA Backlog of Maintenance and Repair (BMAR)



Current year $'s

CONCERNS

We, in the Army, are working hard to embrace our role as good stewards of the Army resources. I believe that the budget I have outlined will support the priorities of the Army in the most cost effective manner. There are several areas however, that still need work. I would like to bring to your attention, some areas that cause me concern especially as we face the FY 1990/91 budget.

o The rising Backlog Maintenance Army Repair is the single biggest problem facing the FY90/91 OMA budget. In FY90 we will have a backlog of $2.9 billion. When you talk to Commanders in the field this is one of their most pressing concerns. We need more money. In the past, when Congress provided us funds in this area, we, in good faith put the dollars against our backlog. Facilities improved and the backlog came down. We are calling on your help again to alleviate this growing problem.

o Foreign currency requirements and availability remain an unknown in the year of execution. The budget is prepared at a Deutsche Mark 1.75 level. Hopefully, this will be sufficient to meet our needs.

o In this time of severe fiscal constraint, the removal of statutory and administrative limitations would increase our commanders flexibility in adjusting resources to meet our needs. This is especially true in the areas of Advertising, Moral Welfare and Recreation, Recruiting, Depot Maintenance, and Real Property Maintenance Activities. Commanders in the field need this freedom to meet unexpected contingencies or exploit opportunities. This will allow them to be better managers.

CLOSING

I am optimistic about our Army. We have seen improvements in the ways in which we manage our resources. Good stewardship is the key to fully utilizing the dollars that we are given. The OMA budget which I have briefly summarized in my statement, meets most of the Army's pressing needs. We have incorporated our management initiatives into the budget preparation to place our dollars where they are most needed and where they can be fully executed. As you can surmise, we could always use more funding. Given the fiscal realities of the defense budget reductions and the significant decreases in other elements of the Army budget, we feel that responsible use of these operating resources will allow us to maintain and support the Army's readiness posture.

We are often asked how does OMA equate to readiness so, I would like to close with a summation of the OMA budget in terms of readiness. OMA is the ignition key and driver of the vehicle, readiness. We supply the fuel, parts and maintenance of the vehicle to keep it running. But, most importantly, we supply the drivers who turn the key. First, you must have soldiers. Our soldiers put the miles on the vehicles and fly hours in the planes. We must recruit and train quality individuals so they can perform. We must provide for their needs such as food, clothing, medical care, lodging and family support. We must give them the necessary roadmaps (skills and tools) to guide their way. We must groom and retain leaders to direct the soldier's path. Then, once soldiers' needs are met and they have the necessary tools, they can step behind the vehicle, readiness and do their job. We ask for your continued support in this endeavor. Thank you.

General McCall. I believe, sir, that we can best serve you and the committee by going straight away to questions. We have a good fiscal year 1990-1991 O&MA budget.

Mr. Hutto. All right, sir. We will start by asking this. Chart one in your statement shows the fiscal year 1990 request of $24.2 billion as a 4.2 percent increase over 1989. How does the Army portion of the total DOD total obligation authority stack up? Is the Army portion increasing or decreasing?

General McCall. Sir, the Army share of the DOD budget authority has remained relatively constant for about 6 years. It's about 27 percent—26.5 percent to be precise—in budget authority. That has been neither increasing or decreasing over the past 6 years. That share has been constant as a share of the DOD budget.

Mr. Hutto. About the same percentage for 3 years, you are saying, something like that?

General McCall. Sir, it has been actually a period of about 6 years that we have been at about 26.5 percent. That growth number that you cited for the O&MA budget, 4.2 percent, has to be looked in the context of overall zero growth in our 1990 budget. So within a framework of zero growth we have given up priority to O&MA.

Mr. Hutto. Your budget request and the numbers you are discussing are, of course, from the original Reagan budget. When can we expect to receive the Bush revised budget adjustments and what will the nature and size of these reductions be, as far as the O&M account is concerned?

General McCall. Sir, we are working toward the 10 April submission date that the President promised that is derivative from the State of the Union Address. I cannot say with any certainty that that date will be met. We are trying to be responsive to the Department of Defense and our contribution to it.

The specifics on that budget, as far as how the appropriations are changed, I would rather not comment on. But I think, as we have shown in the original Reagan budget, our propensity to increase O&M in the face of a flat budget, you will continue to see the concern we have for O&M even in the new product.

Mr. Hutto. I hope that is so. Of course it is very difficult for you and for us as well, since we do not have the specific numbers at this time, we all realize that the problem of not having a Secretary of Defense in place, I hope that will be rectified soon, in not having the budget from President Bush. But, I am glad to hear you indicate to us that readiness will not suffer. Is that your view?

General McCall. Sir, I can promise—I cannot say that there will be no reductions in any aspect of OMA, but I can tell you that readiness will not suffer. That is one of the hallmarks.

Mr. Hutto. Well, that is important. That is the bottom line. If we do not have the readiness, we are going to have morale problems, we are going to have problems in every way.

Your statement mentions your operating TEMPO goals for 1990 as 800 miles for ground vehicles and 15 hours per troop per month for aviation. What are you projecting for 1989 and how do current actuals compare to your estimate for 1990?

General McCall. Sir, we began the year 1989 projecting a recovery from a very low rate of 1988. I must put that in the context of difficulties of 1988, where we dropped in the middle 725–750 range. We were hoping to recover to 850 in 1989. In point of fact that execution will be closer to 800 because of the difficulty trying to bring that ramp up that rapidly. So I believe the actual OPTEMPO of our forces in the field in 1989 is going to be right at 800 miles.

Mr. HUTTO. About 800. That is what you are anticipating really for the upcoming fiscal year as well?

General McCALL. Yes, sir.

Mr. HUTTO. All right. Army depot maintenance backlogs are projected to go over the $500 million level in fiscal year 1990, and your statement mentions this as an area that needs assistance. Would you please review the current and projected status of the Depot Maintenance Program?

General McCALL. Sir, I will make a comment and then defer to General Robles, who may have some more detail, and then come back for the wrap-up.

The Depot Maintenance Program is under funded. We, frankly, would like to have a little more funding in Depot Maintenance. But within the framework of the available funds we are concentrating on the maintenance of what is called secondary items.

The total funds support about 79 percent of our total requirement. But then that has to be broken down into two key dimensions. A tank is the end item. A tank engine is a secondary item. We are budgeted to repair 100 percent of our requirement for tank engines. It is important that we concentrate on those secondary items, because having them on the shelf is your near term readiness and your go to war capability.

We will not, however, do stem to stern, bumper to bumper maintenance on the complete tank at the rate we would like. That we reflect is only about 58 percent of that requirement being accomplished. That is not a happy condition, because we realize that we are deferring to some degree problems. Because as that tank continues to operate it gets more and more in need of a stem to stern overhaul. But given the affordability problem, we chose to put our emphasis on secondary items.

Mr. HUTTO. General Robles, you have comments?

General ROBLES. Yes, sir. From our point of view the requirement for depot maintenance in fiscal year 1990 is about $2,397,000,000, of which we are going to be able to finance about $1,884,000,000, which leaves us a backlog of about $513 million in 1990. That backlog will grow to approximately $584 million in 1991. If you look at it from an overall perspective, we would say that in 1990 we have funded about 79 percent of the requirement and in 1991 about 78 percent of the requirement.

But within that I need to make clear that in the material maintenance world we really have two major components. As General McCall said, there are secondary items, which are the ones that directly affect OPTEMPO and directly affect readiness. That is, we repair those secondary items—transmissions, transfers—secondary pieces that go to a major end item. We fully fund those at 100 percent. In fact, our budget request has those funded at 100 percent for both 1990 and 1991.

It is in the end item maintenance, the overhaul of an entire piece of equipment, an entire tank, an entire airplane, which we have fallen short of the mark because of funding. We are currently funded at about 58 percent of requirements in both 1990 and 1991. That is not the optimal position. But again, it has to be a balance between what contributes most to readiness, which is the secondary item. But we surely think that 58 percent of funding is too low. We would like to have more to be honest with you. We would like to have that up higher.

General McCall. Sir, I might close off on that question by saying I am working with the Deputy Chief of Staff of Logistics, who is the Staff Manager of that program. He is leading a wall to wall review of the requirement. But what we have to be sure of is that we do not invest in depot maintenance any items which are at or near their usable life cycle. I want to purify that backlog and he does also.

He will be sending teams into the field to make sure that an item of Army equipment which is not going to be repurchased, replaced, or bought is not included in depot maintenance overhaul requirements. If they are reflected in this backlog, they will be scrubbed out and either sold or otherwise disposed of.

Mr. Hutto. All right.

Mr. Bilbray.

Mr. Bilbray. Yes, General, remembering who Cash McCall was, I remember he was a promoter and a con-man. I hope your colleagues were being complimentary on their title.

I was going over the Army budget and I was concerned. I met with several members of the Army in regard to their budget. Of course there was a big concern about two areas. One, about retaining personnel by retaining programs that you need. I notice that you have $27 million in program increases, professional development. Is that for your recruits or is that some other area? What is it?

General McCall. No, sir. That professional development is for long term training and more for our career recruits.

Mr. Bilbray. $30 million for the Senior ROTC Program.

General McCall. Let me explain that, sir. That $30 million is one of those budget aberrations. At Spot Grove we re-aligned Senior ROTC funding to fit the academic year. We had been prefinancing the academic year, because the fiscal year and the academic year did not match. Basically all we did was put the funds for fiscal year 1990 into fiscal year 1990 and that is a budget adjustment.

Mr. Bilbray. My concern is that the Army budget is certainly one—maintenance is a complaint of many senior Army officers. That maintaining the equipment we have purchased and keeping up the level of recruitment by offering the programs that are needed: college education when they complete and so forth. Do you feel in your present budget you can maintain both the maintenance—because in some areas in reading through this I see that you are really only maintaining a certain portion of the equipment in some sort of priority list. Can you keep your material up to a high level? Second is, can you keep good recruits coming in under your present budget?

General McCall. Sir, in the face of those and other conflicting priorities, we have chosen to fully fund recruiting and advertising and the education programs, which will continue to harvest for us high quality soldiers.

Mr. BILBRAY. The last question has to do with the Army Reserves and National Guard. As the Cold War seems to be cooling down, do you envision a higher and higher percentage of the Army's duties, their goals, being handled by the Army Reserve and National Guard? To what percent do you believe that the Army Reserve and National Guard can handle these problems: 50 percent, 60 percent of the command mission? Or, what do you envision for the future of the Guard versus the Regular Army in strength and capabilities?

General MCCALL. Sir, my view of that is that we have in the Army now struck about the right balance. I do not envision a major transfer of missions to the Reserve components, unless it is driven by some other externality.

We have in the Army, as you know, some missions which largely reside in the Reserve components. It is selected as a mission which they can handle, they can train up to and have a, perhaps, a civilian compatibility for. Much of our combat service support is resident in the U.S. Army Reserve. There are several inhibitors when we talk of transfer. As you know in our budget we have a very modest growth ramp for the Guard and Reserve. We do not envision them growing too much because you have to do that within the framework of what they can recruit, and where they can recruit it. Because they do not have the full spectrum of recruiting. In many cases we have to raise the structure in parts of the country where that recruiting can be accomplished.

So, we have worked very hard, I have been personally involved since 1979, in the proper mix of what missions and what capabilities should be in the Reserve component.

Mr. BILBRAY. One of the complaints that I am getting from the National Guard and Reserve right now is the lack of available training areas. Seeing what we did with base closings the other day, and a lot of your Guard and Reserve areas now are shut-off, in Fort Dix and some of the other bases that are being closed. They are complaining right now they cannot find places to train: the armored and the artillery and so forth. Do you envision, with the base closings that are going on, having a real problem finding training areas for the Guard and Reserve?

General MCCALL. I had not heard the new concern that would evolve around base closures. However, that in fact might cause some difficulty. I am just back from Germany, spent the last week there. It was to me a further revelation of the need for overseas deployment training. Where things like engineering units can actually get out and have a little room to maneuver, more space to do what they are really trained to do. The units that went on REFORGER 1988, got a chance to exercise up and down the roadways and do some of the things they are trained to do.

Basically, however, I would say that, yes, to the degree that we give up training area and the base closures, that would make it more of a stricture. But, I am not aware of any major problems——

Mr. BILBRAY. Well they do complain, I am going to tell you General.

General MCCALL. Sir.

Mr. **Bilbray**. They complain about lack of having areas to go.

Mr. **Hutto**. Mr. Lancaster.

Mr. **Lancaster**. Following-up on that very last question. You were talking about the validity of exercises like REFORGER, which I understand is going to be eliminated for next year. Do you believe that the cutback in exercises is going to significantly and adversely impact readiness in the Army?

General **McCall**. No, sir. REFORGER is the only major deployment exercise that we are going to change in this year of 1989. Because of maneuver capabilities you only do REFORGER in cold months, where you can push your vehicles out on frozen German soil. We had one scheduled for late 1989 and early 1990. But General Saint wanted to do a more robust exercise. He wanted to bring more people over to get a better training vehicle. So the idea was then born, let's cancel the late 1989 one and reinforce REFORGER 1990 and make that actually a better training exercise. I think we all are going to come out winners.

Mr. **Lancaster**. I asked last week of the Reservists and the Guardsman to tell us a little bit about their use of simulators. But apparently they are not nearly as far along as the regular Army in the use of simulators in training. I wonder if you could tell us a little bit about the percentage of training that is now being conducted by simulators, whether or not you have quantified the effectiveness of its use in terms of marksmanship and other skills training? Just generally what are your feelings about simulated training? Do you believe that troops who have been trained on simulators are going to be as effective in the field as those who have actually trained using live tanks and live ammunition?

General **McCall**. Sir, I am going to just say a few words. General Robles is recently back from Brigade Command and I am going to let him pick that up for the hands-on contact.

My experience is that we have some simulators that are excellent and really replicate the combat situation. Because aircraft simulation has for years been one of the bellwether situations. While in Germany I visited our Apache and Cobra simulators. I am convinced that the pilots learn as much from those. In fact, you can cause things to happen that you cannot replicate it in any other environment. Conduct of fire trainer for our tankers is a good simulator. We have actually reduced in the past 6 years the number of bullets we shoot to qualify a tank-gunner from 144 to 86, based upon simulation time. So, there have been some direct tradeoffs in tank gunnery and some other areas.

But Joe just left a brigade.

General **Robles**. Sure. I would like to give you a Commander's perspective on that question. Having just come from Command and being very much involved in the process of seeing what the proper balance is between down range time, and OPTEMPO. How much should we actually get in a tank and shoot an artillery round, and how much we should do on the simulators. Then finally, how we put that all in a graduate sort of exercise at combat training centers such as the National Training Center or the Joint Readiness Training Center at Chaffee or the Combat Maneuver Training Center (CMTC) which is coming on-line in Europe.

I would have to say the following. We currently in the Army have a family of simulators that are oriented to individual skills. The Unit Control of Fire Trainer (UCOFT) is an individual skills trainer. It trains the crewmen on how to fire the tank and how to do the gunnery procedures in the tank. We have an aircraft simulator that teaches a pilot how to fly the aircraft better. To that degree, I think the Army has used those individual simulators successfully and we have been able to cut back on the number of hours that a pilot flies, and the number of rounds that a tanker shoots.

In my business, the artillery, I use something called the Training Set Fire Observation, which is a simulator to teach observers and artillerymen how to adjust rounds. I was able to cut back the number of rounds we actually had to shoot down range. The ones we did shoot down range, we got a lot more efficiency and effect out of them.

What we have been missing for a long time has been simulations to tie it all together, to integrate the command control function, which is the Commander. It is the toughest thing we do on the battlefield. If we can get the control and command piece together—our soldiers are well-trained. They can do their job.

We are seeing a whole family of simulations coming on that are integrative simulators. For example, the Simulations Networking (SIMNET), which will be an integrated simulator, lets you fight platoons and companies in a simulation mode, which will be very good for the Army. We have some corp level simulations coming on-line. We have simulations to teach battle staffs. For example, the BCTP, the Battle Command Training Program at Leavenworth teaches division corp level staffs to do their command control function.

What we are doing now, and your previous question on, REFORGER, is a reflection, of what we are actually doing in REFORGER, using a lot more simulation to substitute for having individual soldiers go down range and going through the fields in Germany. Because, very frankly, and I have participated in several REFORGER exercises on both sides of the ocean, two of them on the United States side and about three of them on the European side when I was over there, the benefits that you really get out of REFORGER exercises, the major benefit, is the logistics operation of actually pulling the force. All the deployment facet and the redeployment facet.

Then the FTX, there is an FTX, Field Training Exercise, like we have most anywhere. What I think the CINC in Europe's point of view, is he does not want to burn a lot of down range miles going across fields that are not productive. He wants to use a lot more simulations and command level exercises to really test the command and control function to see if we can actually do what we are required to.

General McCall. Mr. Lancaster, I would suggest in closing; when you are traveling, you will see a line in our budget, maybe it is not that visible, called a Battle Command Training Program. You might ask to see that. That is a simulation for the Division Commander and higher.

See, when you get a formation as big as a division, testing that two star general and his ability to fight that division in combat is very difficult to do. But, you can simulate it. We have a team of people that comes and puts him and his staff through a wringer. He passes or fails based on his reaction to a series of battlefield situations which one can simulate. The Chief of Staff requires every one of his Division Commanders, once in your 2 year cycle as a Division Commander, you will be tested.

Mr. HUTTO. Mr. Tanner?

Mr. TANNER. Thank you, Mr. Chairman. I apologize for being a few minutes late. I am still trying to figure out how to be three places at once, Mr. Chairman.

Mr. HUTTO. No problem, Mr. Tanner. If you have that mastered in 10 years, you let me know how.

Mr. TANNER. All right, thank you.

General McCall, General Robles, nice to see you all today. I have a couple of questions.

Am I correct in stating that over the last few years there has been a trend it seems to not invest in what we call capital expenditures, in buildings and so forth, and instead go to leasing facilities around the country? If that is true, the leasing payments would then come out of O&M. Is that correct, in terms of budgetary accounts?

General MCCALL. Sir, I would not make that general observation. There has been more leasing. Of course we centrally monitor real estate leases and that type lease. We have no central control of funds distributed, post, camp or station, where they might in fact do some local leasing.

By giving an example of what I call smart leasing, which may be counter-intuitive and took me a while to understand it. You can lease certain items, and our nontactical vehicle fleet is an example, actually more cheaply and more economically than you can buy. If you go into the cost of maintaining that fleet after making your investment as equipment life, we have run it left, right and sideways and have permitted people to lease their vehicle fleet.

Now that raises the cost of O&M leases and lowers the cost of the OPA account where the vehicle would have been bought. But the net result is a savings to the taxpayer. So, you will see an increase in leasing. But I think each should be taken on its own.

Mr. TANNER. You can adjust your budgets then to reflect it?

General MCCALL. Yes, sir. When you are working over a period of time as you are formulating your budget, you can take each individual proposal, put it through a cost/benefit analysis and decide to approve that or not.

Mr. TANNER. I want to, if I might just a minute, one other question. Refer on page 12 in your statement in regard to severe physical and so forth, "the removal of statutory and administrative limitations would increase our Commanders flexibility in adjusting resources to meet our needs," et cetera. Could you amplify on that statement?

General MCCALL. Sir, you will have to excuse me for sounding like the Budget Director in a prior incarnation. That has to do with the fact that we in the Army, come away from the hearings and come away from our budget review process, with a clear understanding of what our oversight committees would have us do. We feel that because we treat the Committee language as having the force of law then we will abide by that. That sometimes it is a bit of an overkill, if you will pardon the slang, to place legal limitations, and those are either ceilings, floors, fences, different terminology that box in precisely *x* amount of money to be used for this purpose.

The programs are large and complex. They frequently come out 95 to 100 percent right. But if it is not exactly 100 percent right, then you are in trouble because you are facing some limitation. So, my only suggestion of that thought, sir, is that if the Committee wants to convey by way of its language, a specific admonition to do this, we will do that. But when we get caught in what I call the italicized portion of the bill, meaning legally enacted law, then the only thing that can change it is to amend the legislation at some point. That is difficult.

Mr. TANNER. As a freshman Congressman, I could not agree with you more. The one thing that I would like to ask, and it may be a loaded question, is there any movement within the system to try as best one can to combat the theory that has been around since I was on active duty 20 some odd years ago to spend what one has left? Is there any reward that we can structurally build in the system to not have this propensity to spend what is left at the end of the quarter? Do you follow me?

General MCCALL. Yes, sir. I certainly do.

Mr. TANNER. That is what I hear out—and maybe as a freshman having just come through a campaign, that is what I hear when people say, why do we spend so much on defense? Why can't they do a better job of saving money and being rewarded for saving, rather than spending on the next year?

General MCCALL. Sir, we are doing two things within the Department of the Army. First of all, we are inspecting every limitation, whatever type that it may be, that we have imposed in the Pentagon on our subordinate commanders, because the first thing to do is get our own house in order, and make sure that we are not unnecessarily restricting the commanders. I am removing, sometimes reluctantly, at intermediate levels those restrictions where they exist.

Second, we have made a proposal which will be a part of—as you know, the President directed not only a strategic review, but a management review—I will be making a proposal to DOD which will address that concern. It will be a little revolutionary in that I am going to suggest that there be a 10 percent nonpenalty carry over and that funds inactive for a single fiscal year need not all be consumed in that fiscal year.

Mr. HUTTO. Mr. Tanner, you have hit on something that I have been trying to figure out for 16 years. If we could just learn to reward efficiency instead of having all agencies of Government try to spend, and you can understand that because if they do not spend it they are not going to get as much next year.

General MCCALL. Mr. Tanner, let me also suggest to you, sir, another. The reward of collections and running your military enterprise like a business, because in some cases we do have income.

When you are the commander of an Army hospital and you treat a person who has other benefits on a private sector medical plan, you can bill that medical plan to reimburse you for your cost. Those dollars now accrue to the miscellaneous receipts of the U.S. Treasury. There is no incentive for that busy Army hospital commander to chase down Kaiser Permanente to get a reimbursement.

Mr. HUTTO. Mr. Tanner, because you have raised this issue, our staffer here, Mr. Holton, says there are several things going. We just may hold a hearing and try to see if we can't promote some things. Appreciate it.

Mr. TANNER. Yes, sir.

Mr. HUTTO. Thank you, sir.

The Army, General McCall, has a major effort underway to automate its logistics functions. Please review these efforts with us, including the costs and current status of the major components.

General MCCALL. Sir, I am going to ask General Robles to give you some details about those logistic automation functions and we may also have to provide some more detail for the record. We started as you said, sir, about 4 years ago in a program recognizing that one of the greatest returns for automation is in the wholesale logistics area, equally true in retail, but very similar with the material command and its wholesale logistics operation. There you actually get a return for efficient automated systems. We have tried to improve in that area and a few of the system.

General ROBLES. Yes, sir, really two levels. One level is at the base, post, camp, and, station, there are a series of systems coming onboard that will make us more productive. One is at the unit level which is an automated system to help us do the personnel function, the medical function, and the supply function much more efficiently, and has different names—unit level computer, and a unit level system.

At the higher level, at the battalion and above level, there is a new system coming on board which is a Tactical Army Combat Service Support Computer System (TACCS) as you would have it. We are right in the process of fielding right now, which will certainly allow us on a PC—on a single machine, to run the whole suite of logistical systems that we have.

The next system up is the corps level system. That is really where we disengage the logistical management systems which is a corps theatre automation service center, which is a computer system located on a van that is down at the corps level, so we now tie the unit level, company-troop-battery-level, to the battalion division system to the corps system, and put that in a tactical environment.

Now within the Army Material Command, they are also undergoing a series of automation efforts. As a matter of fact, in the 1990 budget request, you will see about $34 million for automation in the area of supply and procurement.

We are asking for some money to do weapons systems management—a system which will let us track more closely the way we procure, we budget, and we maintain our major weapons systems. We are also coming up with a freight system, a CONUS freight management system which will let us do a better job, and a more efficient job of tracking our freight requirements to ship our supplies and our logistic pieces all over the United States.

There is a standard depot system modernization program ongoing which will improve automation—to more automate our depot system, to make them more efficient. So I think from a bottom line perspective, we are trying to use the benefits of automation to be smarter and do our jobs more efficiently. I see real payoff, especially at the tactical level.

General McCALL. Mr. Chairman, I understand you were at my alma mater AMC——

Mr. HUTTO. At breakfast this morning, yes, sir.

General McCALL. All of that is kind of alphabet soup, it is a little difficult to fathom. I might just cite to you a specific example. One of the desk top systems that we just described for the wholesale buyer is a data base that compiles all of the commercial data, and all of the information about the thing he or she is charged by, for the Army.

Then you call up at an instant—displays of this type of equipment, what it ought to cost in the commercial venue, who your vendors are, what type of contract is best suited to the procurement of all that data—this information makes that buyer out in St. Louis, or wherever, a much smarter buyer for the Army. It is difficult to say exactly the return that we are getting. We know that we are getting better contracts and more efficiency.

Mr. HUTTO. But General, we are still not buying all that much off the shelf are we?

General McCALL. No, sir, we have gradually improved, on off shelf buys. We still have a lot of things which we could probably be criticized as having over specified, and those items might well germinate toward commercial procurement.

Mr. HUTTO. I know that is not your specific area that somebody up above in another function prescribes the specifications, but we had testimony—I think it was a T-shirt that has 80 pages of specifications.

You know, we need to get away from that. I suspect that in your position, you could help us to manage that, and to promote that, and to have those people that are not abiding by it to look at the law.

General McCALL. Sir, when you do get into specifications, you will undoubtedly find the horror story of the 84 page spec on T-shirts. We have to be very careful of the different villains. One of the principal villains for the Army is universality.

We have tried to buy something that will work in Alaska, work in Panama, work in Korea, work in Germany, and all points in the middle. As you lay down those universal specifications, unfortunately you have a camel that fits everything, and it takes 84 pages.

Mr. HUTTO. OK. I hope you gentleman will help us to cut out a lot of that. That is kind of ridiculous. Mr. Bilbray, I turned on my light a little late, so I guess it must be your time.

Mr. BILBRAY. I'll pass.

Mr. HUTTO. Mr. Lancaster, do you have any questions?

Mr. LANCASTER. No, Mr. Chairman.

Mr. HUTTO. Mr. Tanner?

Mr. TANNER. No, I don't.

Mr. HUTTO. Well if you guys are not going to ask, I do have one or two more, and then we will close it out. We will have a lot of questions for you that we want you to respond to for the record, and we would like you to do that right away so that we can be sure to include it in the record.

Just a question or two here. Your data for fiscal years 1988 through 1991 show that that air frame backlog is around 50 percent of the total air frame depot maintenance requirement. As we understand the system, this means that 50 percent of the aircraft in need will not be overhauled. Are these aircraft still in the hands of using units and operational, and if not, what is the impact on readiness sustainability by postponing these overhauls?

General MCCALL. Mr. Chairman, clearly the impact of postponing overhaul is to make it more expensive when you do get around to it. However, we do not fly unsafe aircraft. Every fiscal year, the air frame of the aircraft is inspected.

It might well be in need of maintenance since there is criteria based on hours of operation, but it also has a second criteria called safety. The St. Louis Safety Center will not certify an aircraft until it has passed that criteria. To check if an aircraft is safe, simply look right inside the passenger door of most Army helicopters, you will see a little red tag that says, "Aviation Air Worthiness Center". That means—irrespective of its maintenance, of its life time or useful life, it is a safe aircraft.

Mr. HUTTO. OK. The committee has been advised that there is a $70 million shortfall in the funds used to pay for shipments of products sold in Army and Air Force exchange service outlets overseas. Now this is over a 50 percent reduction in the fiscal year 1988 level. We have been advised that funds will run out this month. How does this happen, and what is going to be the impact?

General MCCALL. Mr. Chairman, it is important that the committee understand on that problem, that it is not now a dollar problem. It is a problem, as I have alluded to earlier, of a limitation. There was enacted in the 89 bill, a limitation of a billion—$163 million total that the Department of Defense could spend for appropriated funds support and non appropriated fund activities. That limitation was further subdivided to military departments, and I in the Army have $531,000,000 worth of that billion.

The problem accrues because a part of that—that part which supports the shipment of CONUS procured items to our nonappropriated activity like the post exchanges or the base exchanges in Europe, is legally interpreted to be unappropriated fund support, part of the limitation.

We have had two conditions. One, cost to ship over water has increased markedly, both our own sealift command raised its rates; commercial shippers have raised their rates. Second, we got a buy increase, particularly in Germany, and that happens when the mark goes down. Our soldiers and airmen go into the post exchange to buy rather than attempting to buy downtown on the economy.

Our sales are up, and there is demand for more items to come across the water, and the cost of sending them is more. So we were and are rapidly using up, the amount that we had allocated for that purpose as a part of our total $531 million in the Army.

We in the Army are the executive agent. We are responsible for that shipment activity. We believe two things. One is that the cap is inadequate. Second, that it was not the sense of Congress, that in that part of the equation, we believe the limitation was designed to keep us from spending too much money to support the library at post *x*, but not for that over water activity.

We have appealed that it be set aside, sort of a technical correction, that those funds that support over water transportation, not contribute to a limitation. We have got the dollars, we just need that exemption from the limitation. We thought we had the problem solved.

I would work with the committee staff to get from the four oversight committees a letter telling us—we understand from the staff's perspective, also your understanding, that that was not the intent of Congress, and that we could proceed.

We have as of this morning, a legal ruling, and joined by all of our fiscal lawyers, that legislation must be amended by new legislation, and that the sense of Congress letter will not suffice. Back in my office we are drafting, we will have to OSD tomorrow, a letter to hand over here, requesting that you the Congress, enact some legislation to give us relief.

Mr. HUTTO. Mr. Holton wants to ask you some questions along those lines.

Mr. HOLTON. Since it is highly unlikely that you are going to get any legislation through in the next couple of weeks, what is the fall back?

General MCCALL. Our fall back position is to do as I have already done once, redistribute my available cap so that that critical function does not go dry. I have that authority to do this—if I allocate cap to over ocean transportation for 30 or 60 days more, so that such an amendment can be enacted. Were it not to be enacted, I would shut down the Army in September. So that is a risk I may have to take.

Mr. HUTTO. Thank you.

Mr. HUTTO. Let me—Mr. Holton has some more, but I want to ask you about some of the assumptions in the budget. Now stock fuel prices are 10 percent in the budget lower than in 1989 cost. How valid is this assumption, and what will it cost if prices remain at the 89 level?

General MCCALL. Sir, I am going to give a quick answer. General Robles is just out of close combat with the Defense Logistics Agency. Our procurer of fuel—and I might say that at the outset, sir, that the assumption is not proving as correct as we thought.

The current status of the defense fuel account is that the savings that we had anticipated are not materializing in total. There are a lot of reasons for that. Prices are starting back up. Price per barrel, and a lot of complicated negotiations which the Defense Logistics Agency is essentially responsible. We have some trepidation now as to whether we will be able to reap those savings. Is that a fair statement, Joe?

General ROBLES. Yes, sir, as you are well aware, we budget for fuel according to the OSD rate. The OSD because they simply manage the fuel account, direct what rate we use. It is true that at the time we prepared the 1990, 1991 budget request, the trend analysis showed that fuel prices were on a down turn.

As volatile as that particular program is, as soon as we submitted the budget, fuel prices did an upturn. As a matter of fact, if the trend that we now see continues, and we continue to see a growth in fuel prices, the Department will be under-budgeted for the fuel it needs to execute its programs in fiscal year 1990 and 1991.

Mr. HUTTO. So where would you get the money to pay for the fuel?

General MCCALL. Well, sir, there are two approaches to that. You can manufacture a savings of the DLA account by directing that they draw down reserves. Some of our very fuel dependent services, in particular the Navy, might want to do that. So that is being deliberated. Second, you will have to take it out of other programs, and we have not yet identified exactly what that source will be.

Mr. HUTTO. Mr. Holton.

Mr. HOLTON. Yes, General Mccall, what are the major financial problems facing the Army in 1989?

General MCCALL. In 1989, sir?

Mr. HOLTON. Yes.

General MCCALL. We just discussed one of them.

Mr. HOLTON. Yes.

General MCCALL. We have planned a reprogramming into our accounts from this fuel situation——

Mr. HOLTON. What is——

General MCCALL. That will be a problem for sure. We have basically, in response to your question, four, sort of must pay bills, which we don't have the resources for now, which are going to come due, and probably come before the committee with the reprogramming action—before this fiscal year is out.

The first of those is VEAP, the Veterans Education Assistance Program. Our so called "*x*" soldiers are signing up for VEAP at a rate that we did not anticipate. The program is administered by the Veterans Administration. We put money in the budget anticipating the number of usage we would get, and we undershot it.

Mr. HUTTO. Do you have any idea at the size of the reprogramming request at this time?

General MCCALL. Sir, it will be typical for the programs that we are talking about here, in a range of $125–$175 million. That includes the transportation problem—a long known transportation problem, and a couple of others.

Mr. HUTTO. Is CHAMPUS included?

General MCCALL. No, CHAMPUS is fully funded.

Mr. HOLTON. CHAMPUS is fully funded.

General MCCALL. We don't have to reprogram that.

Mr. HOLTON. But one thing we did not mention in the fuels question. Currently, we have a known currency fluctuation shortfall in the Army in fiscal year 1989. A way to solve that problem was the benefits we were going to get from cheaper fuel, and DLA was in fact going to generate some money that DOD was going to transfer to us, to alleviate the currency shortfall.

If those fuel prices continue to rise and we do not get that benefit, then we will have a currency problem. Again, we only have one or two options, essentially a reprogramming action or absorption. The magnitude of the foreign currency problem would be very difficult for the Army to absorb that kind of money.

General McCall. Sir, I briefly mentioned—I said I had four problems. We have a little problem in total package fielding. The Congress reduced our O&M money in fiscal year 1989, citing the fact that there had been some historic slippage in our ability to put modern systems in the field, and so the O&M amounts which would support that, might slip also.

It was a $26 million reduction under that group, only—except we are doing good. We are getting the stuff out there as planned, and we need a little help in the O&M funding.

Finally, we undershot the Intermediate Nuclear Forces Treaty (INF) cost. We did budget for our support, for the INF agreement, and all of the travel and things that would take place, and the destruction of our Pershing Missiles, et cetera. There is an added cost that we did not foresee. So those are our principals problem areas.

Mr. Holton. You mentioned some of the almost mystical things that are being done with industrial fund pass through, and refunds. What are you all doing to solve that problem?

I know everybody—a lot of people up here are playing games with it. It has gotten so everybody is playing games with it. What is the Army doing to try and turn it into a realistic——

General McCall. Sir, you are correct. We are trying to set the most predictable fixed rate—and a fixed rate equals a fixed price, within the industrial fund. I must say to you as a long time manager of the industrial fund, that stability is more important than perfection.

The thing you must do within the industrial fund for your customers is to set a fixed rate and a fixed price for the services that you will perform. So the commander at Fort Hood knows what it will cost to repair a tank. He is making that judgment for fiscal year 1990 and 1991, how many tanks he will send now.

Now if we had variable pricing in industrial funds so that the bill for that service could be exactly attuned to what the overhead is, we wouldn't have pass through, and everything would be perfect, but there would be turbulence for the customer.

So you take your very best shot at what a fixed price, fixed rate structure should be, and then you would run your year of execution—as you have noted, sir, in the past years, the industrial funds have made money. We had to have pass through back to the customer—their profit.

A couple of years before that, one lost money, and we had to go hit the customer funds to rebuild the fund. Please understand from my perspective, we have to have a balance between perfect financial management, and management which is supportive of the customer.

Mr. Holton. One of the classic examples of Secretary Lehman a couple years ago, he decided that his customers were to get $500 million in refunds.

Managers of the shipyards and everything didn't know where they were going to get $500 million in savings. Anyway, 2 years later they are in here asking "We need to put $500 million back in the industrial fund". It didn't work out very well. Is there money in '90 for a pass through?

General ROBLES. There is a $99 million pass through in the 1990 budget that is a reflection of the anticipated adjustment in the AIF in 1989.

Mr. HOLTON. OK. One last question, Mr. Chairman. The funded carryover in the Army depot maintenance program, how much is it for 1990?

General McCALL. I think I will again let Joe pick up, to make sure I get the number right here. I think our budget carryover in 1990 is about 2.7——

Mr. HOLTON. 2.7 months?

General ROBLES. In 1989, we are currently carrying about 2.9 months of funded carry over. That increase is slightly, to about 3.1 in 1990, and then it works down to 2.7 in 1991, and a downward path—the Department of Defense is working with us to try and manage the amount of the funded carryover.

Mr. HOLTON. OK, traditionally it has been around 3 months?

General McCALL. About 3 months, but that really masks the internal carryover. Months of carryover are a nice common denominator, and it permits you to judge the overall Army program plus or minus. Embodied within that are some predictable swings in individual commodities.

We are still repairing at Sacramento Army Depot, a vacuum tubed based communication shelters for Foreign Military Sales (FMS) customers. We still have vacuum tubes. Carryover to find somebody to make vacuum tubes, you might take 6 months, or 7, or 8.

However, if you go to Corpus Christi Army Depot, the helicopter rebuild, where it is in the front door and out the back door exercise, you will find a carryover measured in days and weeks. So it is a mixed bag, and we aggregate it in terms of about 3 months, which is about right for us now.

Mr. HOLTON. OK. Thank you, Mr. Chairman.

Mr. HUTTO. How are we going to handle the waste clean up? How is the Army going to handle it?

General McCALL. Sir, I'll give you the details of how much we have budgeted from our different accounts. As you know, we are cleaning up from several different sources. We make our draw on the so-called DERA account at OSD for past cleanups.

We are the biggest single user of that account. We budget for our current cleanup within our own budget. I had a separate program review where I had it laid down before me, all of the requirements for environmental cleanup versus what we had funded.

Basically we are doing all of the EPA and locally generated requirements, and anything that will get our commanders in trouble. We are cleaning up by way of the DERA account, all of our past spills.

We are not keeping up, and I don't know how you keep up with the explosion of Discovery. Where every time you make a survey, you found something else as a contaminant, and the requirement keeps growing. If you were to ask the Army is there a larger requirement for environmental cleanup, than you are now funding, the answer is yes, but I can't get that requirement to settle down.

Mr. Hutto. OK, you mentioned the DERA account, and then the fact that you had budgeted. Now how is that listed in your budget?

General McCall. I think DERA is carried——

General Robles. Yes, sir, the way we carry the DERA account, is OSD budgets for it, and in the year of execution they transfer the funds to us. For example——

Mr. Hutto. OK, are you telling me that—I know that General McCall mentioned using DERA funds, and also he had budgeted funds, are you saying that the budgeted funds also come from that same account—from DERA?

General Robles. No, sir, there are really a couple different peaches. The DERA account is a transfer from OSD for environmental restoration of sites, cleaning up previous contamination.

Within the Army, we budget for hazardous waste disposal within Army—it happens to be carried in the central supply program. There is also environmental projects that we do, generally in the real property maintenance account——

Mr. Hutto. How much in each of those?

General Robles. Sir, I could provide in the 90 budget for hazardous waste disposal, internal to the Army, we have $26.7 million budgeted, and in 1991 we have $29 million budgeted.

In environmental projects we have about $93 million in the '90 budget, and about $95 million in the budget request for environmental projects. That is additive to what we expect to get from DERA, which is about $245 million in 1990, and $254 million in 1991.

So as you see, we have a significant amount of resources tied up in the business of either cleaning up former sites, hazardous waste removal currently, and doing environmental projects to stave off any environmental complaint problems in the future.

Mr. Hutto. Did you have something to add?

General McCall. No, sir.

Mr. Hutto. All right, we thank you both very much for your testimony and for your response to our questions, and for the work you are doing. We look forward to working with you, and we will ask you to respond to these additional questions as soon as possible.

General McCall. We will respond quickly, sir.

Mr. Hutto. Thank you very much. The subcommittee stands adjourned.

[Whereupon the subcommittee hearing adjourned at 2:30 p.m., March 15, 1989, subject to the call of the Chair.]

[The following questions were submitted to be answered for the record:]

DEPOT MAINTENANCE BACKLOGS

Mr. Hutto. Maintenance backlogs have been increasing and are projected to reach $584 million by fiscal year 1991 -- a 53% increase in two years. Yet, requirements increased only 20% during the same time. What are the reasons for this?

General McCall.

($ in millions)

	FY 88	FY 89	FY 90	FY 91
Requirements	1836	2207	2397	2664
Backlog	421	381	513	584

The increase in depot maintenance requirements between FY 89 and FY 91 is $+457 million and is a result of prior year backlogs moving forward to the current year and growing requirements because of increasing densities of force modernization systems and requirements for application of modification/conversion kits. Also, as force modernization adds newer systems to the inventory, requirements for older systems remain high which increases depot maintenance requirements. During the same period backlog increased by only $+203 million.

Mr. Hutto. What types of items are in the backlog and what is the readiness/sustainability impact of not maintaining them?

General McCall. Near term readiness is protected because priority funding is placed on overhaul/repair of secondary items. In the short term, there will be no significant impacts. This will impact sustainability over the long term if limited funding for end item maintenance continues.

Examples of the FY 91 backlog follows:

M2/M2A1 Infantry Fighting Vehicle
AN/PRC-77 Family
CHAPARRAL
Dragon
HAWK
Patriot

MODERNIZATION/CONVERSION BACKLOG

Mr. Hutto. The modernization/conversion portion of the fiscal year 1989 backlog is $62.5 million. What does this include? If it's to modernize our equipment, why is it being delayed and what is the impact on readiness?

General McCall. The Army currently protects near-term readiness by attempting to fully fund secondary items. However, underfunding of the modernization program could impact readiness in the long-term and limit efficiency and effectiveness in the short-term. The funding levels budgeted for the modification/conversion portion of the depot maintenance requirements represent a conscious effort to fund this program at a level commensurate with constrained funding and availability of kits, parts, workload capability, and other competing demands for depot maintenance funds. Item managers are aware of the priorities for depot maintenance among such competing demands when they apply limited funding to their programs. Examples of modification/conversion unfunded requirements are:

- Commercial Utility and Cargo Vehicle (CUCV) frame product improvements
- M939 5-ton Truck product improvement
- High Mobility Multipurpose Wheeled Vehicle (HMMWV) brake product improvement
- M110A2 cyclic improvement
- Modernization of Pier Barge
- M113 family of vehicles conversions

UNSERVICEABLE ITEMS

Mr. Hutto. It is our understanding that as of June 30, 1988, there were $1.6 billion worth of unserviceable items in depot inventories. Are these items excluded from Depot Maintenance requirements and/or backlogs and, if so, why?

General McCall. There are approximately $1.6 billion worth of unserviceable items in depot inventories. The majority of these items are excluded from depot maintenance requirements and/or backlogs. The reasons for this are:

a. Items for which there are no longer any Army requirements. For example, M60A2 and M48 series tanks which have been replaced by new systems. However, rather than declare the items excess and dispose of them, they have been retained for contingency reasons.

b. Items that have been declared excess to a unit's requirements and returned for disposition by the depot.

OVERHAUL/REPAIR REQUIREMENTS

Mr. Hutto. In 1988 nine Bradley's were overhauled or repaired. Your projections show a requirement for the repair or overhaul of 534 Bradley's in fiscal year 1991. What is the basis for this substantial increase?

General McCall. The performance criteria in the budget are incorrect and should read:

FY 88	FY 89	FY 90	FY 91
9	71	217	345

The number from FY 91 was transposed. Also, the quantities listed are not requirements but quantities that are funded with resources available. As Bradley's currently in the field age and their density increases, the overhaul/repair requirements will continue to increase. The in use densities almost double in FY 91 over FY 88.

FT DRUM AND HEAVY FORCES REDESIGN

Mr. Hutto. Please tell us how the O&M account supports the light infantry division at Fort Drum and the heavy forces redesign?

General McCall. The Army budget continues to support the operations of Fort Drum and the 10th Mountain Division (Light Infantry). In January 1989, the 2d Brigade completed its move to Fort Drum from Fort Benning. The active component strength at Fort Drum remains at approximately 10,000 soldiers. The division continues to be rounded out by the 27th Infantry Brigade of the New York Army National Guard.

The design of the Army's heavy divisions was previously completed. However, the fill of that structure with modernized heavy equipment such as the Bradley Fighting Vehicle and Abrams Tank continues and is supported at a balanced level in the budget.

The 10th Mountain Division (Light Infantry) and the heavy divisions receive their fair share of the Army's OMA budget, which includes: base operations, operating tempo, supply, maintenance, general clothing and equipment, morale and welfare, and recreation support to the soldier and his family.

SECONDARY END ITEM FUNDING

Mr. Hutto. Your statement mentions that secondary end items will be maintained at 58% of requirements? Please provide examples of these end items, and what are the readiness implications for only resourcing 58%.

General McCall. The question incorrectly states that secondary end items are funded at 58%. In actuality, the goal is to fully fund secondary items Only the end item program is funded at 58%.

Examples of the FY 91 backlog follows:

M2/M2A1 Infantry Fighting Vehicle
AN/PRC-77 Family
CHAPARRAL
Dragon
HAWK
Patriot

Near terms readiness is protected because priority funding is placed on overhaul/repair of secondary items. In the short term, there will be no significant impacts. This will impact sustainability over the long term if limited funding for end item maintenance continues.

PRIMUS CLINICS

Mr. Hutto. General McCall, the Army had planned to expand its PRIMUS clinics to 26 in 1990, but the budget request only contains funding for 10 clinics. What are the Army's plans for these clinics and why has the budget been so drastically scaled back?

General McCall. Mr. Hutto, the medical budget request was developed with the rationale of maintaining the FY 1988 level of care. Although the expansion of PRIMUS clinics from ten (10) to 26 is viewed as necessary, it was deemed not affordable at the expense of other elements of the Direct Care System. To increase the number of PRIMUS clinics in the budget request above the FY 1988 level would have meant reducing other elements of the Direct Care System below the FY 1988 level. Inasmuch as the PRIMUS clinics program has been successful from its inception, the Army Medical

Department plans to continue the expansion from the current level of ten (10) PRIMUS clinics, should additional resources become available.

OTHER PERSONNEL SUPPORT

Mr. Hutto. The Army budget for Other Personnel Support shows an increase of over $40 million. Please explain what these increases will be used for?

General McCall. The increase of $73 million in Other General Personnel Activities includes $27 million in price growth and $46 million in program growth. Major program changes in the following activities: ($ in millions)

Veterans Educational Assistance Program		+34
Transition Management Program		+ 9
Army Continuing Education System--Tuition Assistance		+ 5
Civilian Training Education and Development		+ 3
Removal of one time costs in various programs		- 5
Junior Reserve Officer Training Corps Program of Instruction	-1	
Joint Optical Information Network Maintenance	-2	
Computer Adaptive Testing	-2	

CAPITAL INVESTMENT PROGRAM

Mr. Hutto. Your administration account contains funding for productivity enhancing capital investment program. What level of funding is being requested for this program in 90 and 91?

General McCall. Productivity Enhancing Capital Investment Program Funding Level.

($ in Thousands)

90	91
11,879	15,153

OVERHAUL REQUIREMENTS FOR EQUIPMENT

Mr. Hutto. We noted that there were decreases in repair and overhaul requirments on the AH-1 helicopter and the AN/PRC-77 radio between fiscal years 1988 and 1989. Then there were significant increases in these same items from fiscal year 1990 and 1991. What would cause the requirements to fluctuate so significantly in a matter of two years?

General McCall. Requirements for the AH-1 helicopters are relatively stable through FY 91. Quantities funded are based on funding availability and priority for funding. SINCGARS is being fielded in increasing numbers with the first significant impact being felt in 1991. As SINCGARS is being fielded, units are returning their AN/PRC-77 radio assets to the depots for repair and reissue to lower DAMPL priority units.

AN VCR-12 RADIO REPAIRS

Mr. Hutto. What are the reasons for the significant increase in repair or overhaul requirement of the AN/VCR-12 radio from fiscal year 1990 to 1991?

General McCall. SINCGARS is being fielded in increasing numbers with the first significant impact being felt in 1991. As SINCGARS is being fielded, units are returning their AN/VCR-12 radio assets to the depots for repair and reissue to lower DAMPL priority units.

SECONDARY ITEM MAINTENANCE FUNDING

Mr. Hutto. It is our understanding that secondary item depot maintenance requirements receive funding priority. If this is so, why did almost 50% of the aircraft maintenance backlog ($142.5 million in fiscal year 1988) include engines and secondary items?

General McCall. In FY 88 there were significant decreases in depot maintenance funding as the result of funding high priority bills throughout the Army such as CHAMPUS and foreign currency shortfalls. As a result, it was not possible to fund 100% of the secondary item requirement while at the same time maintaining a balanced workload in the AIF depots. The unfinanced secondary items were predominately those items which are contracted as opposed to being done in organic depots and a dominant portion of those contracts were in the aviation commodity group.

OTHER COMMODITIES, OTHER

Mr. Hutto. In the category "Other Commodities, Other" we noted the financed requirement increased from $148 million in fiscal year 1988 to $226 million in fiscal year 1991 (a 52% increase) whereas the backlog for this line increased from $68 million to $169 million (almost a 150% increase).

Our question is twofold: (1) What is included in the "Other" category; and (2) Why is the backlog increasing so dramatically when compared to the increase in funding?

General McCall. Included in the "Other" category are overhaul and repair costs for end items in the Automotive, Construction, Communications-Electronics, Ship, Rail, Munitions, Weapons, General Equipment, and Other commodity groups.

In general, funding priority in depot maintenance is as follows:
- (a) Secondary Items
- (b) Force Modernization End Item Modification/Conversion and Overhaul/Repair requirements

(c) All other End Item requirements

Though funding levels are increasing, they are not keeping pace with requirements which are driven by force modernization especially in the communications-electronics commodity group as well as the maintenance of existing inventories which require more maintenance as they age.

DEPOT REQUIREMENTS

Mr. Hutto. Your data for fiscal years 1988 through 1991 shows that the airframe backlog is around 50% of the total airframe depot maintenance requirement. As we understand the system, this means that 50% of the aircraft in need will not be overhauled. Are these aircraft still in the hands of using units and operational and, if not, what is the impact on readiness/sustainabilty by postpoing these overhauls?

General McCall: Most of these aircraft are still in the hands of the using units. In general, aircraft will not be returned to a depot for overhaul or repair until funds are available. They are still normally operational. Some of the depot requirements can be partially met by maintenance teams who do on-site repair. Aircraft are inducted for depot repair on a worst condition first basis.

RATION CONTROL IN KOREA

Mr. Hutto. When members of the Subcommittee visited Korea this past year, they learned that it cost $13 million annually to control unauthorized use of commissaries and PX's. The objective is to control black marketing and the flow of duty-free American products onto the Korean economy.

The command told the delegation that there would be reductions in the cost of this system and relaxing some of the restrictions on U.S. citizens.

Would you please tell us how this cost has been reduced and describe the relaxation of the restrictions?

Has the Korean government taken a harder line toward violators?

General McCall. Several actions have been taken and are ongoing to reduce the cost and restrictions during implementation of the ration control system. We are committed to providing our authorized patrons the opportunity to purchase ample quantities of goods in an environment as "hassle free" as possible.

Effective October 1, 1988, we eliminated several ration control monitor positions. The savings from this action for 1988 was $197,000. Our goal is to eliminate 61 ration control monitor positions. Projected savings for FY 1989 will be $1 million. These direct hire U.S. personnel are responsible for verifying the eligibility of facility patrons and collecting ration control slips after purchases. The functions normally performed by these workers will be accomplished by facility managers with the existing work force.

Several restrictions have been eliminated which reduce the administrative burden on authorized customers and facility managers. These actions also reduce costs in a labor intensive monitoring system by eliminating administrative and computer processing. No current estimates of savings is available. These changes include: (1) increasing the limit of the minimum purchased captured by the ration control system from $1 to $5, (2) raising the limit of items designated as "high dollar value" and therefore tracked separately from $35 to $50, (3) eliminating mayonnaise and fifteen other controlled items (i.e. electric irons, rice cookers, etc.) from the controlled item list.

The Status of Forces Agreement (SOFA) with the Republic of Korea (ROK) is currently being negotiated. We are requesting the ROK government to take a more active role in the enforcement of black market activities.

CHAMPUS COSTS

Mr. Hutto. General McCall, what is the status of the Army initiatives to drive down the costs of CHAMPUS?

General McCall. Mr. Hutto, under the Congressionally approved Alternate Use of CHAMPUS Funds Program, Army has submitted to Assistant Secretary of Defense (Health Affairs) several projects designed to recapture approximately $19 million worth of CHAMPUS workload with an investment of approximately $11 million (of CHAMPUS funds) in the Direct Care System (Military Medical Treatment Facility). Initial projections indicate an estimated savings of approximately $8 million.

The Partnership Agreement Program is an effort to bring health care providers into the Military Medical Treatment Facility to treat CHAMPUS beneficiaries, using the supporting Army staff and existing available space. CHAMPUS reimbursement is at a negotiated rate that is below the respective state-wide allowable rate. Experience to date has shown savings ranging from 20% - 50% over routine CHAMPUS provider bills.

Catchment Area Management Demonstration Projects have been approved for implementation at Fort Carson, Colorado and Fort Sill, Oklahoma. These projects are designed to give the Military Medical Treatment Facility Commander the resources and authority to develop the most cost-effective sources of health services in the catchment area, to develop alternative delivery systems to augment health care services in the direct care system, and to improve accessibility to health care in the catchment area by exploring all available options for provision of health care services. Under Catchment Area Management, the Military Medical Treatment Facilities will continue to use current programs (such as described, above) designed to augment the facility staff.

AUTOMATIC DATA PROCESSING SYSTEMS AND SERVICES

Mr. Hutto. An exhibit to the budget request reflects a $142 million increase in O&M for automated data processing systems and services. What are these large increases buying and what are the major components of the increases?

General McCall. Mr. Hutto, the $142 million in growth between FY 1989 and FY 1990 in the Operations and Maintenance, Army (OMA) appropriation displayed in the Information Technology Systems Budget (Exhibit 43A) supports a variety of automated data processing systems and services. The major components of the increases are as follows:

(Dollars in millions)

OPERATIONS AND MAINTENANCE +$60.0

Includes maintenance to support the increased inventory of hardware, software maintenance, and contract operations of government owned ADP equipment/facilities. Major system increases include:

ASIMS	$11.3
TACCS	$ 4.3
Project 80X	$ 4.0
AWIS	$ 2.3
STANFINS-R	$ 2.1
CTASC II	$ 1.5
Non-system specific hardware maintenance	$34.5

PRICE GROWTH +$56.4

Includes civilian pay raises and inflation.

SYSTEMS ANALYSIS/PROGRAMMING +$18.3

Includes software development and software conversion. Major system increases include:

SDS-MOD	$11.0
AIM	$ 4.5
CALS	$ 2.8

PURCHASES +$ 7.3

Includes purchases of PCs, word processing equipment, software packages throughout the Army. Includes hardware integration contracts integral to the acquisition and fielding of capital equipment. Major systems increases include:

CTASC II	$6.0
DMIS	$1.3

AMMO DEMILITARIZATION PROGRAM

Mr. Hutto. The budget request contains $5 million for conventional ammo demil in 1991 but none in 1990. Please explain this project and the funding levels in 1990 and 1991.

General McCall. The conventional ammunition demil program provides for the demilitarization of obsolete/unserviceable ammunition and explosives. As the demil stockpile approaches 10% of the total stockpile it begins to have an impact on readiness. Demilitarization was not considered a readiness issue in the past; however, storage costs of approximately $6.1 million for 1987, which consumes readiness dollars, in addition to consuming valuable storage space directly impacts on readiness.

While the total ammunition stockpile is safe for continued storage, the demilitarization inventory is the more unpredictable portion. As the stocks grow older, safety hazards can be expected to increase. The only sure way of reducing the potential safety hazard of the demilitarization stockpile is through reduction by demilitarization.

Based on current funding levels, a profile of the funded requirements in terms of both short tons and dollars is provided for each fiscal year from FY 1987 to FY 1991.

Funded Requirements	FY 87	FY 88	FY 89	FY 90	FY 91
$ million	31.7	30.6	7.5	7.5	12.5
Short Tons	21,635	19,300	9,000	9,000	15,000

ENVIRONMENTAL CLEAN-UPS

Mr. Hutto. General McCall, how much of the FY 90 DERA (Defense Environmental Restoration Account) is allocated for Army clean-up?

General McCall. The initial guidance from OSD indicates the Army will receive $208 million in FY 90 for the environmental clean-ups. In addition approximately $45 million is expected to be available to the Army for former sites clean-ups.

Mr. Hutto. How does this match up against your requirement for this fund?

General McCall. In FY 90 the Army has the capability to execute an additional $47 million for current sites; and $37 million for former sites.

ARMY ENVIRONMENTAL FUNDING

Mr. Hutto. General McCall, can you estimate the amount of O&M funds, other than DERA, you will spend in order to comply with environmental laws in FY 90?

General McCall. $128.2 million is the estimated amount the Army plans to spend in order to comply with environmental laws in FY 90.

DEFENSE ENVIRONMENTAL RESTORATION ACCOUNT (DERA)

Mr. Hutto. General McCall, how much money will the Army be allocating for hazardous waste minimization research efforts in FY 90?

General McCall. In FY 90 the Army will be allocating $6 million for the hazardous waste minimization research efforts.

HAZARDOUS WASTE MINIMIZATION

Mr. Hutto. General McCall, I'm putting together legislation now which would establish a new funding mechanism for hazardous waste minimization since this will be an important long-term cost cutting item.

The legislation I'm working on would require that hazardous waste minimization be funded in a manner similar to the ACP (Asset Capitalization) program - 1/2 percent of total industrial fund revenues would set aside for this use. A minimum payback would be established for projects to come into this account.

Can you comment on what effect establishing this account would have on the Army's efforts in this area.

General McCall. The establishment of such an account would significantly enhance the Army's capability to achieve HAZMIN goals by establishing a funding mechanism for projects at Army Industrial Fund Installations that require capital equipment to get the project started. Establishment of a HAZMIN type of revolving account would make it easier to initiate a project since the project would not have to compete against other monetary needs.

ENVIRONMENTAL COMPLIANCE

Mr. Hutto. General McCall, I'm also drafting legislation that would require the Department of Defense to develop a method for tracking what it costs each of the services to comply with environmental laws, and to report these requirements to Congress annually when the funding request comes over.

I understand there is concern among some of the services that may have difficulty with this amendment. Since you must have requirements to have a budget request, I'm not clear on what the problem would be.

Do your think the Army would be able to provide this information on environment requirements vs. funding and how difficult will this be to do?

General McCall. We recognize the benefits of identifying expenditures for environmental compliance. Right now it is difficult because environmental costs are usually rolled up in real property maintenance costs. We are concerned that any method of tracking costs (e.g., a separate appropriation) not create financial barriers which might inhibit a commander's flexibility to accomplish his mission. The Army is in the process of making a concerted effort to improve our ability to identify requirements associated with environmental compliance and we expect to be able to provide more accurate data in the near future.

NAVY AIRCRAFT DEPOT MAINTENANCE

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Wednesday, March 22, 1989.

The subcommittee met, pursuant to notice, at 9:32 p.m., in room 2212, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The subcommittee on readiness will come to order.

This morning the subcommittee will continue its consideration of the fiscal year 1990–1991 Department of Defense operation request with testimony from the Navy witness on the Naval Aviation Depot Maintenance program. I want to assure the members of the fact that the Navy's finest naval aviation depot in my district is not the only reason for this hearing.

There are a number of major issues associated with the Naval Aviation Depot Maintenance program that deserve careful consideration by the Readiness Subcommittee. Foremost among them is the growth in Naval Aviation Depot Maintenance backlogs. Since fiscal year 1987 Naval Aviation Depot Maintenance backlogs have grown from virtually zero to over 150 million or three times the size backlogs we found unacceptable in fiscal year 1981.

According to the General Accounting Office Data, the fiscal year 1990 Naval Aviation Depot Maintenance funded program assumes backlogs of twenty-one airframes, 312 engines and over $100 million in modifications. Navy projections for fiscal year 1991 reflect little reduction in the size of these backlogs, and it is no secret that Naval Aviation Depot Maintenance backlogs are likely to get worse as a result of President Bush's revision of the Reagan DOD Budget request.

Under the circumstances, it is vital that we understand the impact of these growing backlogs on Navy readiness and operational capabilities. We also want to know the impact on the six Naval Aviation Depots in terms of work loads and employment levels.

Another major issue is the questions raised by the public/private competition for Naval aviation maintenance and modernization workload. Is this competition really saving money and how are these savings validated? Are these competitions fair and realistic? How can we conduct these competitions in a way that protects the core capabilities at the various Naval Aviation Depots?

Another issue related to the competitiveness of the Naval Aviation Depots involves the acquisition of new capital equipment and facilities to keep abreast of new technology. If the Naval Aviation Depots are going to compete with the private sector, they have to be given the means to improve productivity and stay on the cutting edge of new technology.

I recognize that there have been some significant problems in the Navy's management of the Asset Capitalization program in recent years and we want to correct those problems.

On the other hand, we do not want to see workloads leaving the depots by default because the Navy could not provide the capital improvements to be competitive with private contractors. What we need is a blend of better management and adequate resources to get the job done.

A final issue is the challenge facing Naval Aviation Depots to comply with increasingly stringent environmental regulatory requirements. The importance of meeting this challenge has become painfully apparent in recent months in Pensacola, Cherry Point and Alameda Naval Aviation Depots. Environmental issues are going to have to be given more attention by the Navy leadership in the coming years, in order to fashion a compliant strategy that is both effective and recognizes the national security missions of the Naval Aviation Depots.

I would like to insert in to the record a statement by Mr. Kasich, the subcommittee's ranking minority member.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

I want to associate myself with the chairman's remarks and his concerns about naval aviation depot maintenance trends. I am especially concerned about the impact of growing depot maintenance backlogs on Navy aircraft readiness.

Time and again we are hearing about "Manageable Depot Maintenance Backlogs" and how they look worse than they really are. How the services are able to protect readiness requirements even though unfunded backlogs are growing at an alarming rate. I must say that I am just not convinced by these assurances.

The main reason for my skepticism where naval aviation is concerned is the fact that the Navy aircraft inventory is getting pretty long in the tooth. The A-6 intruder and the Lockheed P-3 aircraft date back to the 1960's. The S-3 Viking and F-14 Tomcat were both introduced in the early 1970's. They have all served the fleet well, but they are getting older and progressively more difficult to maintain. In addition, the extension of the time between scheduled depot level maintenance for naval aircraft seems to be driving up the scope of work and cost for those overhauls. Finally, as Admiral DeMayo points out in his statement, the depots are going to have to provide increasing support for older systems that private industry is either unable or unwilling to perform. Under the circumstances, I am inclined to believe that the Navy's aircraft depot maintenance backlog is significantly understated.

At the same time the depots are contending with the problems of an aging aircraft inventory, they are going to have to try to come to grips with requirements generated by new weapon systems. Modernization will mean that new technologies will have to be introduced into the depots if they are to repair new weapons systems and remain competitive with the private sector.

In sum, trying to meet these challenges with a level budget over the next few years represents a pretty tall order for the naval aviation depots. I look forward to the testimony this morning and hope that the witness can address my concerns about the adequacy of naval aviation depot maintenance funding request in meeting fleet readiness requirements.

Mr. HUTTO. We are very pleased to have with us today again Rear Adm. Pete DeMayo. Admiral DeMayo is Deputy Assistant Commander for Naval Aviation Depots, Naval Air Systems Command. Admiral DeMayo, it is a pleasure to see you again and to have you and your people with us today.

STATEMENT OF REAR ADM. PETER DEMAYO, U.S. NAVY, DEPUTY ASSISTANT COMMANDER FOR AVIATION DEPOTS, NAVAL AIR SYSTEMS COMMAND; ACCOMPANIED BY: MICHAEL COCCHIOLA.

Admiral DeMayo. Thank you, Mr. Chairman.

Mr. Hutto. Yes, sir, you may proceed.

Admiral DeMayo. Good morning, Mr. Chairman. It is a pleasure for me to be here. I am accompanied by Mr. Michael Cocchiola, who is my deputy at NAVAIR. I have been at NAVAIR since 1979 and was most recently the Assistant Commander for Contracts at NAVAIR.

I am very pleased to appear before you today and address an area of logistics which is critically important to readiness and that is naval aviation depot maintenance. I have prepared and submitted a statement on naval aviation depot maintenance. With your permission, I would like to furnish that full statement for the record, and then just make some comments.

Mr. Hutto. Yes, sir, without objection. That would be entered into the record.

Admiral DeMayo. Thank you, Mr. Chairman.

Our organization is composed of 23,000 employees, six strategically located naval aviation depots, and the Naval Aviation Depot Operations Center at Patuxent River, Maryland.

Corporately, we furnish over $2 billion worth of aviation maintenance and support for the United States Navy. Our mission in naval aviation depot maintenance is to provide world-wide logistics, maintenance and engineering support to our naval air forces in peacetime and during periods of national emergency.

Our mobilization role is critical, yet we are ever mindful that we must operate our depots in a most business-like manner. We have concentrated our efforts recently to provide the highest quality products and services, improve our productivity and reduce our costs.

I would like to make two points.

First, our naval aviation depots have undergone significant and rapid change, emerging as a disciplined, competitive, and quality oriented corporation, focused on operating in a cost-effective and business-like manner. Our six naval aviation depots have common goals and objectives. They are bound together by a corporate strategic business plan, which I brought along with me, supported by execution plans at each depot, and other corporate-level plans such as the corporate capital plan.

Second, we have proven that we are a competitive force in the market place. Our customers are our focus, and our goal is that our customers all brag about us, and we are working toward that goal.

Our entry in the public/private competition was an unqualified success. Both the F-14 and P-3 competitions were won by the organic depots, and the Navy achieved a cost-reduction of approximately 20 percent of previously experienced costs.

We learned a lot: how to decrease costs; adopt new business principles; and yet provide a higher quality product. Our Naval Industrial Improvement Program initiatives have been put into operational use. We have exceeded our cost reduction goals: specifically our fiscal 1988 costs, have been reduced approximately 13 percent over a 2-year period. This has resulted in savings of over $240 million relative to the $1.9 billion of annual product and service we provide.

Along with these savings, we've increased quality and customer satisfaction. Our Asset Capitalization Program is another example of how we have changed and improved. Taking seriously the findings of last years General Accounting Office report, we mounted a very intensive improvement program, which has developed a disciplined and professional capital asset planning and execution process. I firmly believe our Asset Capitalization Program can serve as a model for other industrial funded activities within the Department of Defense.

We have significant challenges in the years ahead. Total quality management is a long-term, never-ceasing way of life. We have adopted this program, but we must have the management resolve, and dedicate the resources necessary to continue our efforts to constantly improve the performance of our depots.

New weapons systems will be introduced into our inventory, bringing with them new technologies that require new skills and capital investment. We are making business decisions from a financial as well as a strategic perspective with regard to the types of maintenance and manufacturing support our depots will provide.

We face major challenges in our efforts to protect the environment. This has top management priority within the Naval Air Systems Command. We are assessing our maintenance operations carefully to develop detailed plans of action so that we can minimize, and if possible, eliminate the use of hazardous materials.

Investment in capital equipment, military construction, and management information systems, will be critical to successfully meeting these challenges. We need your support for a viable Asset Capitalization Program.

In conclusion, the naval aviation depots have undergone significant and rapid change. Emerging as a disciplined, competitive, and quality-oriented corporation, they are focused on operating cost-effectively, and utilizing proven business-based principles. We are proactively pursuing solutions to long term problems such as environmental compliance.

We face significant challenges in the years ahead.

Mr. Chairman, this concludes my opening remarks. I very much appreciate the opportunity to appear before you today, and will be happy to answer any questions you may have, sir.

PREPARED STATEMENT OF REAR ADM. PETER DEMAYO

Mr. Chairman and distinguished members of the subcommittee, I appreciate this opportunity to discuss the Naval Aviation Depot Maintenance Program and our progress toward improving the performance and capabilities of the naval aviation depots.

Our mission is to provide worldwide logistics, maintenance and engineering support to naval air forces in peacetime and during periods of national emergency. A strong and responsive organic mobilization support base is fundamental to naval warfighting capability. Our mobilization role and responsibilities are of primary importance in planning our industrial support strategy.

At the same time, we are ever mindful that we must operate our depots in a peacetime environment that stresses quality, productivity and cost effectiveness. When the Honorable Everett Pyatt, Assistant Secretary of the Navy (Shipbuilding and Logistics), appeared before the subcommittee in March of 1987, he described several management initiatives that we undertook to ensure the required mobilization support base is efficient in peacetime, continuously upgraded to meet new requirements, and available whenever and wherever it is needed. I am proud to report today that we have made significant advances in all areas.

The naval aviation depots have undergone a period of significant and rapid change. They have emerged over the past few years into a disciplined corporation with common goals and objectives. They plan and work together as a team, the combined strength of which is an enormous asset to the Navy and this nation. Corporate and individual plans have been developed and the depots are managed to these plans. We have adopted Total Quality Management as our overriding philosophy. This major effort has greatly improved the quality of our products and services and enhanced responsiveness to our customers' needs. Our depots have frequently been singled out as examples of how to make Total Quality Management work in government. Initiatives under the Navy Industrial Improvement Program have led directly to major improvements in business planning, capital asset planning, financial and material management, information systems, and personnel management. I would like to describe some of these successes.

The depots have proven conclusively that they can be a competitive force in the market place. The 23,000 depot employees are meeting the challenges of the future with innovative ideas and continuous improvements in processes, products and services. Customer satisfaction is the number one objective. A wide range of customers includes users within the operating commands, Navy program managers in Headquarters, other services and Department of Defense components, federal agencies such as the National Science Foundation, and even prime contractors in the private sector. It is with pleasure that I note we are hearing regularly from our customers about how good a job we are doing for them. We will continue to press hard in this area. Our ultimate objective is to have all of our customers brag about us.

I take special pride in reporting that our entry into public/private competition was an unqualified success. As we previously advised this committee, we initiated two major competitions, the F-14A Standard Depot Level Maintenance and the P-3C Update III modification, both of which were won by the organic depots. In effect, we put into practical use the Navy Industrial Improvement Program initiatives. Cost reductions have been substantial, as much as 20 percent of previously experienced costs. Through participation in these competitions, the depot corporation gained valuable experience in adopting business principles and practices which helped lower operating costs and improve organizational management. We have applied the lessons learned from these competitions to all of our depots. This has resulted in a heightened team spirit on the part of our employees. For the future, we plan to conduct similar competitions, on a limited basis, to ensure that both public and private sector facilities improve their performance. In this way, the Navy strengthens its peacetime mobilization base, gains added value for its investment and is able to see more cost effective products and services delivered to the fleet. We will continue to balance the benefits of competition with the need to maintain strong and viable industrial capabilities in both the public and private sectors.

I am especially pleased to report that the depot corporation exceeded its cost reduction goals for Fiscal Years 1987 and 1988. Our cumulative goal under the Navy Industrial Improvement Program was a $200 million reduction in operating expenses either in savings or cost avoidance by the end of Fiscal Year 1988 from our 1986 baseline, while improving products and services to our customers. We exceeded that goal by $40 million. During the past year, we completed maintenance on over 580 aircraft, 2670 engines and 190,000 components in addition to providing a myriad of other less visible services such as engineering, logistics and management support for in-service aircraft, emergency repairs in the field, and fleet training in maintenance. All of this was accomplished at a lower cost than would have been experienced had we not been as successful in our cost reduction efforts. In addition, we have been continually improving performance in our commercial depot rework with special attention focused on past problem areas such as contract logistics and material planning and execution. Cost, schedule and quality provisions during contract execution have been enhanced while competing products at reduced costs.

I am most proud of our Asset Capitalization Program (ACP). A viable ACP program is essential if government industrial activities are to be able to provide depot maintenance in support of new weapon systems and new technology. As I am sure the members of this subcommittee are aware, the General Accounting Office (GAO) criticized, in a February 1988 report, our management of the depot ACP through which we modernize production equipment and achieve the capabilities necessary to meet future workload commitments. The GAO criticism was warranted. In response, we mounted a very intensive and focused improvement program through which we developed a disciplined and professional capital asset planning and execution process. Management initiatives we have implemented include: (1) development of a corporate directive for ACP with continuing policy improvements, (2) development of depot capital asset plans including capital investments and benefits by investment categories, and (3) depot training in depreciation accounts, cost benefit analysis, procurement and utilization of equipment. A corporate executive review board links capital asset planning with overall corporate business planning. In Fiscal Year 1989, all major ACP performance indicators are improving. I firmly believe that we now have an ACP management plan in place that can well serve as a model for other industrially funded activities in the Department of Defense. In fact, we have shared our ACP experience with other services as well as other elements of the Navy. In addition, we have briefed our ACP improvements to the GAO and congressional staff members, as well as other high level officials. In all cases, our ACP improvements have been well received.

But none of these impressive accomplishments could have been achieved without the cooperative efforts of our 23,000 person team of employees, accomplishments which have been amply recognized both inside and outside the naval aviation community. The Secretary of Defense Productivity Excellence Award (group category), the Assistant Secretary of the Navy (Shipbuilding and

Logistics) Action '88 Excellence Award for Quality/Productivity, the Office of Management and Budget Quality and Productivity Award, the Federal Energy Efficiency Award and the inclusion of one of our facilities in a Tom Peters public broadcasting feature on excellence in the public sector are but some of the indicators that the aviation depots are leaders in management among the Department of Defense industrial activities. In addition, the depots have also been recognized by state and local organizations for their significant achievements in employing the physically and mentally handicapped, working with the minority communities, and proactive Adopt-A-School programs.

All of the above point to the fact that we made some rather ambitious and challenging commitments to improve our performance, and we have met or exceeded those commitments. However, many challenges remain. I like to think that the depot corporation is on about the 50 yard line and running hard, but still with a good way to go. In particular, Total Quality Management is a long term initiative. Even though we have been working on total quality management for over 4 years, and have achieved successful results, I feel we have only scratched the surface. Not only must we continue to improve in the areas to which we have devoted much time and attention over the past several years, but we must accelerate our efforts in areas that will be at least as challenging if not more so in the future.

Mr. Chairman, we in the defense community face a very constrained budget in the foreseeable future as this nation contends with the federal budget deficit. The aircraft depot maintenance budget is austere. We will continue to fulfill the Navy's highest priority depot maintenance needs but we must continually seek opportunities to produce more with fewer resources. The depots will retain a sizable workforce and we can accomplish our budgeted workload, but we will be pressed to meet future challenges. Let me highlight these challenges.

The Navy will be introducing new weapon systems into the inventory over the next several years. The T-45, V-22, and A-12 aircraft are major examples. These new aircraft also introduce new technologies that require capital investment and new skills. Remanufacturing programs such as the F-14D will introduce newer technologies to the depots. In addition, the depots will be called upon to provide support where private industry is either unable or unwilling to perform. We are evaluating our organic manufacturing capabilities and find that in areas where private sector capability is lacking entirely, or is being phased out, the depots can play a vital defense role. One such area is engine bearings where domestic production and repair capability is severely limited and very costly, with long production lead times. Another example is engine blade and vane repair. We have taken the lead in developing new repair technologies and we are able to reduce engine repair costs and lead times to our customers. It makes eminent good sense from financial as well as strategic viewpoints for the depots to fill the vacuum in selected critical areas where private industry cannot meet the defense requirement.

The new programs I have just described must be supported within increasingly stringent controls on the environment in which we operate. The naval aviation depots, because of their geographic locations, face a difficult environmental challenge. Hazardous waste management and the safety of our employees are of very serious concern to us because of the diverse production processes we must employ. We have taken the initiative to develop a proactive management plan that ensures we meet today's and future environmental regulations. Environmental compliance is one of eight key accomplishments in our corporate business plan. We have just completed an in-depth assessment of all our depots, conducted by an independent environmental engineering concern, that provides the basis for a detailed plan of action. We have environmental and safety specialists in place at all depots as well as in headquarters working closely with local, state and federal authorities. Over the long term, we are exploring ways to include environmental and safety concerns in new aircraft design and procurement contracts as well as maintenance. These efforts require time and capital investment, but I can assure this subcommittee that we will be very active in our environmental and safety program. We recognize our responsibilities and are committed to continuous improvement.

Mr. Chairman, let me conclude my statement by reaffirming and emphasizing my belief that the naval aviation depots offer a very great value to the Navy and this nation. As our mission statement says, we are essential to mobilization and competitive in peacetime. This national resource must be constantly upgraded and modernized both to meet the depot maintenance demands of a modern naval fighting force and to keep pace with our private sector counterparts. Our capital equipment must be replaced as it wears out and newer, more productive equipment made available to our employees. We cannot expect them to improve their performance without the proper tools. We have canvassed both low and high performers in private industry as well as other public industrial facilities. The high performers consistently invest up to 5 percent of sales annually in replacement of capital equipment. The aviation depots must do the same to remain a productive and competitive source of repair.

We must continue to modernize our facilities through military construction. Many of our buildings are of the 40's and 50's vintage, some older, and are not structured for modern production processes. We must continue to replace these outmoded facilities to take full advantage of new production technologies and posture the depots for future workload.

As a final point, we must invest in the most modern information resource management techniques available. I am convinced that the full integration of business management and information systems offers the greatest opportunity for enhancing industrial performance. The return on investment is recognized throughout industry and the most successful companies are investing at least 4-5 percent of sales annually. The naval aviation depots must keep pace with the innovative management technologies that are being adopted today by private industry to continually improve quality and performance.

I very much appreciate the opportunity to appear before this subcommittee and I will now be happy to address any questions you may have.

Mr. HUTTO. All right, sir, thank you Admiral DeMayo. We are very pleased to have Congressman Owen Pickett with us. He is not a member of the subcommittee, but has a deep interest in our naval depots, and we appreciate you coming. If you have any questions you would like to ask how in case you have to leave, we would be happy to hear from you.

Mr. PICKETT. Thank you very much Mr. Chairman. You are very generous. I did want to just ask a couple of questions of the Admiral if I may. The naval depot at Norfolk is in my district, and naturally I am very concerned about it from two aspects. The one that you have talked about is the capital acquisition program. Adequate buildings and adequate machinery to do the job that needs to be done. I was very concerned that maybe not enough attention was being given to this aspect of the program, and I am very encouraged by what you are telling me. Could you tell me anything specific about what the plans are for the naval depot at Norfolk?

Admiral DEMAYO. Yes, sir. Well as you know, we had one significant environmental issue with Norfolk, with the transformer fire and subsequent PCB contamination of buildings 60 and 90. We have authority to demolish these buildings, and we are in the process of going through the design to do that. We are also starting the process for the military construction which I think will probably be in the 1993 budget to replace these buildings.

On the other hand, I would also say that the depot at Norfolk has done a magnificent job in redeploying the equipment that was in those buildings. Their productivity has stayed quite high. We have not had to reduce our work load schedule at Norfolk. As a matter of fact, we are expanding to some extent, in the F-14 and the A-6 program so I think Norfolk is positioned very well, sir. I think that we have a good program to replace the facilities that were contaminated as a result of the transformer fire.

Mr. PICKETT. I think some of their efficiency was lost by the loss of a use of that building, and is the construction of the new facility which is going to be somewhat smaller. Is that pretty well on track, and is that going to happen on schedule?

Admiral DEMAYO. Yes, sir. What we are doing now is going through the planning phase to design a building that has the equipment that will ensure that our processes operates in a highly productive way. So I think we are looking at it as a total business investment, the building, the equipment, and the types of processes that we will do in support of our aircraft program. So I think that is moving. We do not yet have the construction of the new facility in the budget. But I think that will be coming in the next couple of years.

Mr. PICKETT. There is one other issue that recurs there having to do with the pay scales of the employees. For some reason, it appears that the pay scales in this area are somewhat lower than pay scales at comparable facilities in other parts of the country. I have made inquiries and gotten answers of which I am not sure I understand. This is something that I would appreciate someone looking into and explain to me why, with the good record that this facility has in turning out work of excellent quality on time, why the employees at this area are not compensated at the same rate as employees of other facilities around the country.

Admiral DeMayo. I would be glad to look at that and provide some details. I think you are probably talking about blue collar employees.

Mr. Pickett. Yes.

Admiral DeMayo. Pay scales are set by area wage surveys. I am not aware of any problem in obtaining the quality skills that we need at Norfolk. We are paying a competitive wage to our blue collar employees. I would be glad to provide additional details for the records.

[The following information was received for the record:]

Pay scales for blue collar employees are based on bi-annual local area wage surveys conducted under the Office of Personnel Management guidelines. The Norfolk area survey includes 125 private firms. The last survey was conducted in May 1988. This survey showed that Norfolk's employees in specific wage grade categories lagged behind local area wages by 13.5 percent. However, Public Law 100-202 limits annual wage grade increases to that allowed for General Schedule employees. The maximum allowed increase of 2 percent was implemented in 1988. The maximum allowed for 1989 was 4.1 percent.

Mr. Pickett. Thank you very much. Mr. Chairman, I thank you very much for this opportunity.

Mr. Hutto. OK, Thank you.

Mr. Pickett. I Appreciate it.

Mr. Hutto. Admiral DeMayo, you heard me mention the backlog, and since fiscal year 1987 Naval Aviation Depot backlogs have grown from a noise level problem to over 150 million and will remain at that level for the foreseeable future. By comparison, backlogs are triple the size of those the Navy was agonizing over in the bad old days of the early eighties.

What impact is this maintenance backlog having on fleet readiness? Specifically, which aircraft were grounded in fiscal year 1988, and which may be grounded in 1989 and 1990?

Admiral DeMayo. Yes, sir. Mr. Chairman, we do have some backlogs that have developed in fiscal year 1988. Now in terms of impact on the depot, I would say from my perspective that the impact on our work load and on our employment levels has been minimal.

For example, the number of aircraft grounded due to deferred depot maintenance in fiscal year 1988 was 16. That is across a total inventory in excess of 6,000 aircraft of which we overhaul, or about 750 repair aircraft per year. That is a relatively small backlog, and as I look at the projections that are in the current aircraft rework budget, the backlog goes from 16 in fiscal year 1989 and 21 in fiscal year 1990.

Most of the aircraft rework backlog that we have seen in the Operation and Maintenance budget relates to modifications that are incorporated into naval aircraft. Much of that modification backlog are things that are installed commercially by prime contractors as a part of their work on some of our major systems.

There are plans in the budget, and I have read Admiral Walsh's testimony which indicates we planned to work the backlog down by the 1991 timeframe.

So as far as the impact on the depots goes, our employment level has been relatively stable. I think that the work load is there for us to maintain our employment levels. The backlogs, from what I see, are manageable. If additional funds are budgeted, I think we can accommodate the work without too much difficulty. That is how I see the impact of the backlog on the depots as it currently exists with the budget that is currently on the Hill.

Mr. HUTTO. All right sir. You also alluded to the environmental problems, and Mr. Pickett did likewise for the Norfolk facility. As you are aware, environmental issues are of ever-increasing concern in the Naval Aviation Depot community. Over the past several years, meeting environmental standards has become more expensive and has restricted some depot operations. To what degree have environmental requirement impacted on the Naval Aviation Depot's ability to efficiently meet production goals. If possible, would you quantify these impacts in terms of production delays and increased costs.

Admiral DEMAYO. Mr. Chairman, the issue of environment is one of the most important issues that we face. As a matter of fact, in our aviation depots, this is one of our eight key accomplishment areas we are working on.

Each of our depots has environmental problems that they are trying to deal with. In terms of the impact on production delays, I would say that we have been able thus far to accommodate the environmental impacts with very little production delays.

There is no question that our costs of doing business are increasing because of the need to comply with stringent environmental laws and regulations. We have had to replace a number of plating facilities at our depots. As a matter of fact, we have come to recognize that one of the costs of doing business in the depots is that we are probably going to have to replace our plating facilities about every 10 years. That is a significant investment. The estimate that I get is that it could be $12 to $14 million per depot in replacement costs. We need to work that into our thinking.

Some of the facilities are currently in various stages of production. I think we have upgraded our other plating facilities, and this is a major contributor to environmental problems in waste water and in hazardous waste.

So the cost of doing business is increasing because of environmental issues. We have to factor this cost into our rates. I know one of the issues at Pensacola is that because of changing processes, we might incur a million dollars more cost per year associated with chemical paint stripping. This cost will eventually be worked into our rates, because some of those costs will be borne directly by the depot, other costs will be borne by the Public Works Center—as they are also industrially funded. They have to recover their costs. They will, therefore, be charging a pro-rata share of those costs back to us.

Our approach in trying to deal with the chemical stripping issue, which is driving our costs up, is to apply new technology to find alternatives. We have programs underway to evaluate plastic media blast, which is a non-chemical way of stripping paint off aircraft. That is very promising. It probably is an interim approach for us. We are looking at other technology aspects: laser stripping, is an example, to try and deal with hazardous waste management.

Mr. HUTTO. Are you interacting with other services on technology and ways of doing this?

Admiral **DeMayo**. Yes, sir. We have a very close relationship with the Air Force, and I think the Air Force has been very environmentally pro-active. Within the Navy, we have research and development activities, under the Naval Facilities Engineering Command, that are looking at all aspects of environmental issues. Within the Naval Air Systems Command we work as a coordinated team with the engineering people. We also have coordinated efforts with the Air Force and Army. We work with them individually and through joint committees that are under the Joint Policy Coordinating Group, which as you know operates out of Dayton, OH. Environment is one of their major issues and we work very closely with them.

Most recently, I was on a tour with all inter-service group and at each depot—Army, Navy, Air Force—environment was a prime focus area. We exchanged ideas, problems and things that we could work on. That is the normal process we go through.

Mr. **Hutto**. Do you get any DERA funds for any of your clean-up or your environmental activities?

Admiral **DeMayo**. We—I do not have the specifics of the amount of Defense Environmental Recovery Act funds that we have, but I am aware that we have made use of Defense Environmental Recovery Act funds where those funds are appropriate. For example, we are using Defense Environmental Recovery Act funds to demolish and clean up buildings V-60 and V-90 at Norfolk. There is also the opportunity to use some of the superfund money for existing environmental cleanup and we are aware that it is available. We look at those funds too.

Mr. **Hutto**. OK. Dr. West has some questions along this line.

Dr. **West**. Just to carry over—I think one of the problems in trying to respond to these things that is not often recognized, is that when you are responding to requirements that are being generated for most of these environmental programs, you are dealing with a decentralized process where each State has, in many cases, the program and sets the requirements.

The second thing is that the laws, the statutory guidance that they follow is not cost-sensitive. I mean it does not make any difference to them how much it costs to get to whatever goal that they want to set. In fact, they can specify the best available technology, even if that is a problem.

The other thing is that they really do not have to take into consideration your mission. Whether or not Pensacola can do a good job, or whether or not Pensacola stays competitive with the private sector, is not something that they have to take into consideration. In that kind of an environment, how are you going to be able to, in an 18 to 24-month period prior to your execution year, forecast what these requirements are going to be, and how urgently they will have to be addressed. Again you are subject to enforcement from State authorities and EPA in real time. I mean it is not a question of whether or how you are trying to do that. Do you have any suggestions to improve the process, to bring a budget or bring a request up to us that is more responsive to these environmental requirements?

Admiral **DeMayo**. Yes, sir. Dr. West, I appreciate that question, and as you have stated, it is a very difficult issue to deal with.

What we have tried to do, just as we have taken on other issues in our depot corporation, is to take coordinated action recognizing that each of our depots is different, each area is different.

Working with our engineering people, we have hired an environmental consulting firm to do a top-to-bottom review of all of our depots, taking into consideration the uniqueness of each of the State and local areas. They have looked at all aspects of environmental issues—air, water, hazardous waste, everything.

This report was just submitted in March of 1989, and I am encouraged by the fact that it gives us a very good summary, a snapshot in time. I would be glad to share this with you. The report covers all of the environmental areas. Where do we stand? Are we significantly deficient? Are we in compliance today? Where do they see us being say, over the next 10-year period? So we have at least that snapshot.

At the same time, we also have various initiatives to look at different technologies that we can apply, and I might say that some of these technologies are not necessarily that expensive. You find some of the things that are being developed in the commercial marketplace—some of that equipment investment, is affordable in the short term. Admittedly some of it is.

We are trying to get a full picture. This report was just submitted and we are planning to have a review with the contractor in April. When we go to our Depot Corporate meeting in May, we are going to put together an initiative which I think will lay out a forward-thinking strategic plan on the environment.

What will the impact of that be? There is no question in my mind that we are going to have to look at the environmental issue in terms of capital investment. We are going to have to look at this as a module of the Asset Capitalization Program. We might have to think about a category of asset capitalization that will address environmental issues so that we can plan and program them over time. I think there is no question there is going to be some significant investments.

There is going to be some military construction required, and as you know, the military construction efforts follow a separate track. So I think that somehow were are going to need to coordinate that among ourselves, and with you up on the Hill.

I think with this kind of look at the process, we can provide you the assessment and the information that you need.

Now in regard to State and local environmental organizations, these can present a challenge. As you said, they are not always sensitive to our mission.

On the other hand, we have tried to be proactive with these local areas. We have tried to meet with them and to anticipate problems early on. In some cases we did not do so well. We learned from that, and we are trying to work with them to achieve environmental compliance with State and local laws.

For example, the toughest area we have is in San Diego, with the Naval Aviation Depot, North Island. There have been problems with paints, for example. The depots are out there working with local agencies, and our paint suppliers have been very cooperative in dealing with this problem. I believe some of the new paints that we have come up with meet the standards that they have established in San Diego.

This is a very tough area, though I think we have the right focus on it. Our people at headquarters are working it, as are the people in the field.

Mr. HUTTO. All right, sir, if you could share that information with us for the record.

Admiral DEMAYO. Yes, sir. We will be glad to provide it.

[The Summary of Activities and Environmental Regulatory Assessments at Six NADEP Facilities Final Report, May 1989, is retained in committee files.]

Mr. HUTTO. Dr. West.

Dr. WEST. Just one follow-up. I understand the work that you are doing with the contractor, and I certainly do not want to malign any contractor. But you also had a contractor that came in and told you how to build your plating facility at Cherry Point, and he said that the way to do that was to go from a treatment type approach to a closed loop instead.

Admiral DEMAYO. All right.

Dr. WEST. Now you find yourself, years later, with a $14 million military construction project in place that you cannot turn the switch on, because the contractor was not able to forecast the fact that the Environmental Protection Agency categorize the effluent as a hazardous waste and that the sewage treatment plant at Cherry Plant was not to be treated as a publicly-owned treatment works. So you had a contractor come in, gave you the best estimate he could, and I think it probably was the best estimate of the time, yet we find ourselves where we cannot do it.

Admiral DEMAYO. Yes, sir.

Dr. WEST. At Pensacola, you have the same trouble with the publicly-owned treatment works situation from your paint stripping facility there. The failure to recognize the importance of that process to the work that goes on at Pensacola has led the Environmental Protection Agency again to give a notice of violation that required you to stop the drains, and go to a process that is manpower intensive, essentially, to take the stripper on, take it off with squeegees, collect it on a plate on the floor, take the plate, scrape it into a barrel. Now, again, what happens to Pensacola if somebody had a crisis somewhere, a contingency where you had to process a lot of aircraft through there in a very short period of time that involved de-painting those aircraft? The concern that you have is that may have to go on contract, and not be done at Pensacola, where previously it could be done.

I think another issue is this whole question of hazardous waste minimization. You are under criticism because perhaps your methodology or your measurement systems for reaching a 50 percent reduction in hazardous waste minimization. You may have to face the fact that Congress will use you as sort of the guinea pig on how well this thing is being done. Again, you maybe in competition with people who do not have those same requirements. People who are not going to have to make those same investments in the near term.

So I think these things go to the very heart as to whether the depots are going to be able to remain competitive in this kind of an environment. I think that, as you know, we have to track that very closely up here and we really need your help in keeping these things in perspective. Otherwise, we are liable to find out, as we have at Cherry Point, what do we do? We have a $14 million facility. There is no easy answer to that. It costs another $5 to $8 million to reconfigure that facility, or it could require a legislative fix.

So I think there is more to it than just a pro-active management structure. I think that there is going to have to be a closer working relationship with the regulatory agencies and with Congress, to see that the requirements that are being imposed on you do not end up having a very adverse impact upon what you can do at the Depots and how competitive you are going to be able to remain.

Admiral DEMAYO. Yes, sir. I appreciate your comments, Dr. West, and we will take that aboard.

I will say that, in the case of Pensacola, we have not had to turn away any aircraft because of the issue we are dealing with. So I think our interim solutions are working. We will come up with a longer term solution that will be a much more acceptable one, because as you indicate, we are creating some hazardous waste, and we want to eliminate that.

That the key is to come up with a strategic plan. What I mean is something that focuses on the details of what we want to do, that considers all the aspects of technology, the environment and legal considerations, and then to carry out and monitor that plan in a way that will be acceptable.

We have just been at this strategic planning process the last couple of years. I feel very good about the infrastructure that we have established. When I say that we are proactive, I mean in a hands-on sort of way. We have a group that looks at this at headquarters, and I would say, in the case of something like Cherry Point, I hope that we would have focused on that a lot earlier than at the time when this thing was ready to be lit off as a project.

As you know, the Cherry Point issue is not clear cut. There are people even within the Environmental Protection Agency that do not agree with the local environmental agency, but we cannot seem to get them to make the right decision for us. But, as I think you are aware, Congressman Jones has gone on the record to try and get this thing rectified. We think we have a good position and I hope we are going to be able to open that facility.

I would just conclude by saying that we will work with you and give you all the data that we can, and I want to assure you that we are going to plan this thing in a very detailed and a very realistic way, in terms of how we are going to deal with the environment.

Mr. HUTTO. Admiral, on page three of your prepared statement, you indicate that you plan to conduct more public/private competitions for aviation maintenance workload on a limited basis. What kinds of workload will be involved, and what do you mean "on a limited basis?"

Admiral DEMAYO. Well, Mr. Chairman, as you know, the initiative to do public/private competition was driven by higher level authority in the Navy, and I think, also supported from the Hill. We were responding to an initiative at the highest levels. We have completed two major competitions.

My view is that we should be very selective in terms of what we might do in the future. For example, one competition that is currently in process is the SH-2 standard depot level maintenance. This work is currently being done in the private sector. We will allow our aviation depots, in this case Pensacola, to compete for this work load, and the program will be competed this year. We are looking at a couple of other programs that might lend themselves to competition—the A-6 re-wing, which again is currently done in the private side.

So what we mean by limited is perhaps one major competition a year. From my standpoint, this is all that I think is needed to keep our pencils sharp, if you will, and to keep us thinking in terms of efficiency.

If higher authority direction changes and wants us to do more, obviously we would have to respond. But this is currently what I see. The main reason for limiting competition is that when the depots compete, they have to act just like a private contractor. They must respond to all aspects of a request for proposal and all of those kinds of things that they typically do not do. It is very labor intensive. I think that our people have done a wonderful job in responding to that initiative, and I think that we have been successful. But I would see competition being limited to as I have indicated—one a year.

Mr. HUTTO. OK. In your statement, you indicate that the depot corporation exceeded its cost reduction goals for fiscal year 1987 and 1988. This seems to support the GAO's finding that Naval Aviation Depot cumulative financial gains amounted to $590.3 million between fiscal year 1985 and 1988. Does this mean that we can take advantage of these savings and direct a refund from the Naval Industrial Fund to offset a cut in the customer accounts in fiscal year 1990?

Admiral DEMAYO. Mr. Chairman, I am familiar with the draft General Accounting Office report. It has not been coordinated and staffed within the Navy Department, and there are issues in there that go beyond just my role as the Deputy Assistant Commander for Aviation Depots. If we can keep it in that context, there are some insights I can offer.

We have made significant savings in our aviation depot programs. I think the fact that we have been able to operate with reduced budgets over the last couple of years, and I think our budget in 1988 is down over 10 percent over what it was in 1987, and still accomplish all the work load, reflects the fact that our costs of doing business is down.

In other words, our budgets have already taken advantage of the savings. The budgets that you are seeing reflect the fact that these savings have been accomplished and our customer rates reduced accordingly.

A finding in the draft General Accounting Office report is that our components we program appears to be making money. My comment on that is, first of all, we would have to really look at the back-up data, because we have not had a chance to look at the details in proper context.

But we find that in some areas of our program we have probably made some money, say in components, and in some other areas we have lost money, like airframes.

Our objective is to price our products in a way that we are neither in a profit nor loss position cumulatively. Our objective is to break even across each depot and we price our product lines to achieve this goal. This is not always possible.

So, there is no windfall as suggested in that finding and also the savings that we have achieved have been reflected in the budgets that you are looking at.

Mr. Hutto. OK. Dr. West has a table and I think he would like to pursue that a little bit.

Dr. West. Yes, I think that the thing we want to know—and I guess we would find out getting a briefing from the Navy Industrial Fund, where you are at this point. The point here is that, this is the NADEP-wide—this is this $590.3 million profit as it were, is reflected as going across all of the things that you have done. So the question would be, that you are supposed to be at essentially a break-even point. Does the 1990 and 1991 budget, and the rate structures on which that budget is based, get you back to essentially a break even point over that period?

The other issue, of course that would have to be addressed, is whether or not the Naval Aviation Depots, for example, are providing a buffer against shortfalls in MSC or something like that. Recognize that.

It has been something that Congress has done for some time. You see a $590 million profit, and if that profit remains within the Industrial Fund, the congressional practice has been to remove some of that from the customer accounts, and direct a refund back to the customers. Especially in this kind of a budget environment, that kind of approach is very attractive, unless your evaluation of the data indicates that the 1990 and 1991 request is based upon a rate structure that is coming to bring you back to a break even point.

Admiral DeMayo. Yes, sir.

Dr. West. Can you comment on that?

Admiral DeMayo. Well, Dr. West, what I would say on that is, two things. One is, as I have previously described, the budgets that you are looking at have taken in the savings and they contemplate a break-even position for our depots. There is no windfall in there.

The other thing I would say is, as indicated, this is a draft report. I have never seen this table, so I do not know the basis for it.

We have not had a chance to look at it within the Department, so what I would like to do is provide an analysis of that for the record. I think this is a key issue for you, and we would be happy to provide an answer for the record, sir.

[The following information was received for the record:]

Net gains or losses reflected in the Operating Results or Accumulated Operating Results (AOR) account are influenced by stabilized hourly rates that are charged to depot customers. These rates are developed by the activity and are based on budgeted costs and hours, and comply with budget guidance.

The $590 million gain from fiscal year 1985 through fiscal year 1988 was not a profit in the aviation depots. The goal of industrial funded activities is to break even in costs and revenues.

The naval aviation depots ended fiscal year 1984 in a loss position of $289.9 million due to stabilized rates which did not cover all costs. The depots were authorized to add a recoupment factor of $289.9 million into their rates beginning in fiscal year 1985 to recover prior year losses. As the stabilized rates, including the recoupment factor, extended into fiscal year 1986 and fiscal year 1987, the total loss was recovered and the depots gained an additional $300 million. This gain was returned to the customers' accounts through the congressionally directed rebate. By the end of fiscal year 1988, the aviation depots' AOR reflected by a virtual break even point.

Mr. HUTTO. All right, sir. Yes, sir. That will be fine, if you will provide an answer to the question for the record. We will provide the table and the report to you also.

Alright, another question from your prepared statement. You discuss the Asset Capitalization Program at the NADEPs and the efforts by the Navy to improve the management of the program in response to GAO criticism. As you are aware, Congress has cut the ACP program pretty heavily over the last 2 years, and there continues to be some concern about the management of the program. Given the continued pressure on the DOD budget, what would happen if Congress were to cut the ACP program again this year?

Admiral DEMAYO. Mr. Chairman, our position is that further cuts could really have a negative impact on our ability to invest in new technology and position our depots to be competitive to do both its mobilization mission and also to do the other kinds of business that we were asked to do. We have scrubbed our capital budget down very carefully. To meet the targets that are in the budget that you are seeing from the Department of Defense, we have had to sacrifice a fairly large number of productivity initiatives. This is where we get the increased efficiency in the future. Our feeling is that, as we consolidate our program, as we demonstrate that we have a well managed program, we can tough it out through this budget period. But there is no question in my mind, that if we do not get back to a somewhat higher level of Asset Capitalization Program authority, we are going to continue to postpone and defer these productivity initiatives.

So, my strongest recommendation is that we not cut the Asset Capitalization Program budget, but that we focus on the way the program should be run. We think we have got a good program, and it is in the best interests of the taxpayers and the Navy Department that we proceed as planned.

Mr. HUTTO. I would agree with that.

As a follow-up question, if you had to choose between a cut to the Naval Aviation Depot Maintenance program and the Asset Capitalization program, which would you prefer?

Admiral DEMAYO. Well, that is a difficult question, Mr. Chairman. I think in the case of our aviation depots, our total Asset Capitalization Program authority is around $47 million, so I cannot imagine a cut there being the salvation in the total Operation and Maintenance Account.

Mr. HUTTO. I understand.

Admiral DEMAYO. As you know, the Asset Capitalization Program was something that was advanced by the Congress as a sound concept—we have just got to demonstrate to you that we can run that program efficiently.

Mr. HUTTO. I think you are making progress too.

Mr. Ray, do you have questions for Admiral DeMayo?

Mr. RAY. First of all, Mr. Chairman, and Admiral, we are on a fast track, and I try to deal in priorities. This meeting was priority to me this morning, but, some constituents came in and they——

Mr. HUTTO. That is a pretty good priority there.

Mr. RAY. I do not know whether there is any of the questions raised on the environmental issues——

Mr. HUTTO. As a matter of fact we did, and Admiral DeMayo gave us a pretty good run-down of efforts they are making, but you might have specific questions.

Mr. RAY. Well, did you particularly refer to the question in the record here, Dr. West, and that is environmental issues are of increasing concern in the Naval Aviation Depot community. You all talked about that a good bit?

Well I would just like to say we think it is a serious situation. This committee, in its heavy work load during the last several years did not pay a lot of attention to environmental issues on military bases. As a result of that, other committees did, primarily the Energy and Commerce Committee, began to take a good look at it. Then about 2 years ago, the committee decided to establish a panel, which Dave McCurdy chaired, and handled for a while, and then I ran a temporary panel last year. That panel has been made a permanent panel under Congressman Aspin, and we report directly to the full committee.

But I just want to say that it is a very high concern. We have found that on about five hundred military bases there are 8,000 sites that have problems, and some of those sites are very severe. We estimate it will take about $20 billion to clean these sites up. So far we are working on minimal funds under the the Defense Environmental Restoration Account (DERA), have something over $500 million, which is not near enough money.

We will be focussing on those very seriously and very intently, and of course, more focus now is beginning to be paid to what is happening on depots in particular, and military bases. Would you have any idea of the seriousness under the area that you supervise? Is there any problems in the area?

Admiral DEMAYO. Yes, sir, Congressman Ray, there are a lot of issues and problems, and, as I indicated to Chairman Hutto, we have just recently had a thorough assessment of all of our depots, working with our Naval Facilities Engineering Command and a contractor, to look at all aspects of environmental compliance, where we currently stand, and here we see ourselves over the next couple of years. I have agreed that we would provide that information to the committee, and we would be glad to share that with you.

We are trying to have a total environmental assessment and we are trying to develop a strategic plan to deal with all of these issues. I agree with you that some of these may be beyond the economic bounds as we see it, but currently, I think that we can deal with it.

Mr. RAY. Well, I think we have to get them in the slot now. There is a bill that will be coming up and debated very seriously on the floor of the House pretty soon. We are going to try to prevent it from passing. But that bill in effect is going to take away all of the sovereign immunity of the Government. We have lost an awful lot of it already. But if this bill happens to pass, it simply means that you—your base, your operation, whatever your jurisdiction is—can be subject to a heavy fine every day until it is corrected. In some cases it will take 2, 3 and 4 years to correct a problem.

I have mentioned briefly the Marine Supply Depot down at Albany, GA that was recently handed a fine by the Department of Environmental Services for the State of Georgia for $10,000 per day.

Because we still have sovereign immunity, we were able to prevent that fine from being levied. But it would have taken $17 to $18 million to pay the fine before that base could have corrected that problem, and I just want to say that we face some serious situations ahead. There are going to be times when the Navy, and all of the services are going to have to—if it is serious enough, and you are not on the priority list, and you are getting pressure from local folks. You might have to take a good look at whether your Operation and Maintenance funds might need to at least begin to work on that while you are waiting on us to get to it.

So I just wanted to put that in to the record, to let you know that we are seriously concerned by what is ahead.

Admiral **DeMayo**. Yes, sir. I appreciate that, and we are more than happy to try and work with you and provide you whatever information we have on those issues.

Mr. **Ray**. One of the main things is to be sure that problems on defense bases—Naval bases—is reported and that we know about it.

Admiral **DeMayo**. Yes, sir.

Mr. **Ray**. Thank you.

Mr. **Hutto**. We appreciate the work that Mr. Ray is doing in this environmental area, and Mr. Ray, Dr. West had pointed out earlier instances where we perhaps have not looked ahead enough and environmental problems had come up that really are quite expensive. Admiral DeMayo has indicated their interest in looking ahead and planning ahead, and that way, actually we cannot only avoid not only the lawsuits and fines and that sort of thing, but we can also save the Government money.

I would also comment that, I guess 10 years ago, when I came to the Congress, environmental issues were seemingly not nearly as important. As a matter of fact, I guess some environmentalists were scorned as I guess they are some of them today.

But nonetheless, there is sentiment apparently among the people today, like never before, with their environmental concerns. Just about any environmental piece of legislation that comes to the floor, nowadays seems to pass without any problem at all.

OK, well, let me get back to the ACP if I may just a little bit. On page nine of your statement, you indicate that high performers in private industry and public industrial facilities consistently invest up to 5 percent of sales annually in replacement of capital equipment. How large is the ACP program reflected in the NADEP program for fiscal year 1990? I believe you mentioned something like $47 million?

Admiral **DeMayo**. Yes, sir.

Mr. **Hutto**. In 1991, and when do you think you will attain a 5 percent investment program?

Admiral DEMAYO. Mr. Chairman, I would hope, starting in about the 1992 budget process, we would get ourselves back to what I consider four to 5 percent to be a good number for us over time, at least that would be recommendation. Of course, this would have to go through the budget process. But I think we have gained enough understanding within the department to get ourselves back to a total Asset Capitalization Program budget somewhere on the order of $60 to $70 or $75 million.

I think that is an acceptable range for us to be competitive.

Mr. HUTTO. OK. Did I understand it was $47 million in 1990? Is it something like that?

Admiral DEMAYO. Yes, sir.

Mr. HUTTO. And 1991 is what?

Admiral DEMAYO. I think it is about—I can give you the exact——

Mr. HUTTO. OK. Well that is alright.

Admiral DEMAYO. 1990 is $47.5 million, and 1991 is $47.2 million.

Mr. HUTTO. OK.

Admiral DEMAYO. That is for the aviation depots.

Mr. HUTTO. OK. Later on we are going to have a hearing just on the ACP which will be helpful to all of us.

Mr. Lancaster, any questions for Admiral DeMayo?

Mr. LANCASTER. Yes. Just a couple dealing with a couple of your aircraft.

The F-14A overhauls; apparently we have a significant differential in the planes that are going to be non-competition overhauls. The competition overhauls, with the Navy requesting a little better than $1.4 million for each of the 27 planned non-competition overhauls, but $803,000 for each of the 20 planned competition overhauls.

I wonder if you could explain that differential and also explain why, with the F-14A it was a $1.14 million per copy cost.

Admiral DEMAYO. Yes, sir, I would be happy to, Congressman Lancaster.

As I explained earlier, when we conduct a public/private competition, the depots have to bid just like they are a private contractor. In other words, they get a request for proposal that has fixed priced line items representing in their that are different elements of the Standard Depot Level Maintenance. The $803,000 per aircraft represents the basic unit price as indicated in the contract, not considering modification installation and not considering any over-and-above work. In other words, when you get an aircraft in you open it up and if you find there is something that is not covered in the basic contract, you have to do those over and above repairs. You must also install all outstanding modification kits.

Now the $1.4 million is the budgeted amount per aircraft. When we put the budget together 2 years ago, we included an estimate all of the things that we anticipate doing on the F-14 in other words, the basic, the mods, and some estimate for over-and-above, based on experience.

Mr. LANCASTER. Well, how are you going to do the over-and-above on the competition aircraft? Are you going to spend another $600,000 on each of those from some other budget line?

Admiral **DeMayo**. Yes, sir. As a matter of fact, that is exactly what we will do.

In other words, just like a contractor as we see those over-and-aboves, we will propose a price adjustment. We have a contract administration team at both of our depots, and they will negotiate what the impact is, and then the price will be increased to accommodate that over-and-above.

Now, the other thing I need——

Mr. **Lancaster**. Where is the money for that over-and-above?

Admiral **DeMayo**. That is in the program manager's budget under the aircraft rework item.

Mr. **Lancaster**. So it is already there?

Admiral **DeMayo**. Yes, sir.

Mr. **Lancaster**. You are not going to come back——

Admiral **DeMayo**. No, sir. It is already in the program manager's budget.

Non-competitive F-14 aircraft were budgeted 3 years ago at about $1.7 million per unit. Due to the learning and experience of the competition, the budgeted per unit price is down now to about $1.4 million. We see a further reduction of the non-competitive aircraft to somewhere around between $1.2 and $1.3 million. Because we are doing both competitive and non-competitive aircraft in the same production line using the same techniques all aircraft will be delivered at the same unit price.

The budget differential is due to guidance received to displaying budget data and the need to structure our bid in a specific format, but the final result will be that an F-14 aircraft, competitive as well as non-competitive will cost somewhere on the order of $1.2 to $1.3 million each. There will be no difference.

I think we could provide you the audit trail to show you how we get to that without any problem.

Mr. **Lancaster**. You would do that.

Admiral **DeMayo**. Yes, sir. We will be glad to provide that for the record.

[The following information was received for the record:]

The F-14A competition program has achieved the goal of reducing maintenance cost through improved efficiencies. Reduced costs can be seen in successive depot maintenance airframe budget submissions: Fiscal year 1986—$1.670 million, January 1987—$1.524 million, and February 1988—$1.458 million. The two prices found in the fiscal year 1990/1991 budget exhibit were caused by our inexperience in displaying "contract" awards.

Since we are performing the same work on competition and non-competition F-14A airframes, the cost will be the same for both airframes. The display for the "contract" price included a known basic cost but did not display within scope emergent requirements or installation of modification kits budgeted elsewhere. This table summarizes the situation:

Noncompetitive display:	
Standard depot level maintenance	$1.445M
Efficiency	$0.210M
Cost estimate	$1.235M
Competitive display:	
Base contract	$0.804M
Emergent requirements	$0.431M
Cost estimate	$1.235M

We expect the first completed competition F-14A overhaul in June 1989. These are our cost estimates to date; however, emergent requirements may increase our estimates. For example, we have emergent maintenance problems in the boron tail assemblies which must be purchased and the material charge will be added to the contract cost, as would be done with a commercial contractor. Thus, for specific aircraft, the unit cost may increase to $1.345 million.

At this worst case, savings realized since fiscal year 1986 would be $325,000 or 20 percent of the fiscal year 1986 base cost.

Mr. LANCASTER. Also I am concerned about the continued delays in delivery of the new A-6 composite wing, and what its impact is on delay. I wonder if you would address that problem.

Admiral DEMAYO. Yes, sir, I would be happy to.

The A-6 composite wing is under contract to Boeing. It has been a very difficult challenge for Boeing, but I am happy to report that we are finally starting to see wings coming off the Boeing production line.

As far as the impact on the aviation depots goes, this was new work load that we positioned ourselves for. We have worked with the contractor, and under current plans, both the aviation depots and Grumman Corporation are now prepared to install those wings. This represents new work load for us. We are happy to see Boeing start to solve their problems and we will get the A-6 aircraft back in operation.

Mr. LANCASTER. What is going to be the operational impact of the delays we have already had, and future delays in gearing up and beginning to install the wings and getting back to the fleet?

Admiral DEMAYO. I think, as far as the impact goes, the fleet has been able to work the A-6 problem, though it has been a real significant problem to them.

I see ourselves being able to respond fairly quickly, once we get those wings, to get the A-6 problem behind us. We are working very closely with the program manager to take on the A-6. I think we are going to do 16 aircraft in the depots this year, and there is a game plan to get them back in the fleet. It is a well planned operation.

Mr. LANCASTER. Could you give us sort of a schedule of what you anticipate in terms of numbers of aircraft and when?

Admiral DEMAYO. Yes, sir. I will be glad to provide that for the record. I would have to get with the program manager, since he——

Mr. LANCASTER. I am asking——

Admiral DEMAYO. Yes, sir. Be happy to.

[The following information was received for the record:]

Grounded A-6 aircraft will be the first to receive composite wings. Based on current schedules, all currently grounded A-6s will be rewinged and returned to fleet operational status by the end of fiscal year 1990. In addition to the rewing program, enhancements to the existing metal wing have been identified that will help ease near-term fleet operational shortfalls. These enhancements, primarily "cold working" of approximately 900 holes, will lift the 3g restriction currently placed on some 114 aircraft but will not extend wing fatigue life. Many of these aircraft will still require replacement wings upon reaching 100 percent fatigue life. This will be accomplished during routine depot level maintenance.

Mr. HUTTO. Mr. Bilbray.

Mr. BILBRAY. I apologize Admiral, for being a little late. What I would like to know, and you may have covered this in your testimony earlier, but, what is the oldest aircraft that you are rehabbing in the depots?

Admiral DEMAYO. Well, I think probably the A-3 is about the oldest we have. The A-3 was probably designed in the late forties and produced in the fifties. We are currently in the business of phasing out the A-3, as it is quite an old aircraft.

The A-4 is an aircraft that was designed in the fifties and is still a very serviceable aircraft, used in training of new pilots, jet training, and also used in some fleet applications, and a lot of foreign military sales customers.

I think the A-4 will continue to be in use for some time.

Mr. BILBRAY. Are you seeing——

Admiral DEMAYO. The T-2 is another one, I think. They are all about of the same vintage time.

Mr. BILBRAY. Alright now, at what point is it not cost effective to continue to work with these planes, because, we see in civil aviation a real question today. Whether the stress factors—things you just cannot rehab, and the fact of the bolts and everything else under stress giving out at a certain point.

Is there a point when the Navy says, hey, these planes look serviceable, they seem to be but now we are beginning to have more problems with them, if not crashes at least mechanical problems. It reaches a point, just like in a car, that you may have to buy a new one. Who makes that determination?

Admiral DEMAYO. Yes, sir.

We have a group in the Naval Air Systems Command who are constantly monitoring all of the aircraft in terms of their operational environment. They basically control how long you can use an aircraft. In the depots, as we see the aircraft come in, we also provide information. I think, to address your question, in the case of the A-3, what we have seen over the last couple of years, is the cost of repair going beyond the bounds of things that make good economic sense.

Now, you have to keep in mind that the Navy has a mission to perform, so it is not a question of just pulling them out, because you still have to meet your operational requirement, so we have been phasing the A-3s out gradually. They are currently off our aircraft carriers.

We look at our aircraft, with respect to what our information system says, the structural engineering analysis, and our depot experience; then we make those trade-offs.

Mr. Bilbray. Some of those planes that you are flying are 30 years old.

Admiral DeMayo. Yes, sir.

Some of them quite honestly, are doing quite well after 30 years. If you get good maintenance—and we give great maintenance in our depots—the planes hold up real well. I think the A-4—most people would agree—the A-4 is still a wonderful aircraft 30 years later.

Mr. Lancaster. Have we had any in the last say 2 years that crashed for mechanical failure?

Admiral DeMayo. I do not have the details—each crash is investigated in terms of the cause and I would have to get you that information separately.

Mr. Lancaster. I would like to see something—a little breakdown on the oldest planes versus say, those that are less than 5 years old——

Admiral DeMayo. Yes, sir.

Mr. Lancaster. The amount of crashes whether from mechanical failure or pilot error, just to see in my own mind.

Admiral DeMayo. We have an Aviation Safety Office that keeps all that data, and we can provide that.

Mr. Lancaster. Not that thick, just maybe about a two page——

Admiral DeMayo. Yes, sir, we will get you summaries.

[The information was provided to the Congressman.]

Mr. Lancaster. Thank you.

Mr. Hutto. Alright, thank you Mr. Bilbray. Admiral, earlier Dr. West brought out the fact that in the competition, the Navy may be bound to rules that the private sector may not. Is this something that you have looked at pretty closely? In other words, it seems to me if it is going to be fair competition, the private bidder would have to meet all the criteria that the NADEPs would meet. Is this a real——

Admiral DeMayo. Yes, sir. This is a big issue.

As you recall, I mentioned to you that I came from contracts, into the depot business, right at the time this competition was going on. The first thing we heard from the depots is that you have to have a level playing field. Well, I would also hear from the contractors that we have to have a level playing field.

The issue can be looked at from both sides, because our contractors are under quite a few rules associated with Government contracting. What we did in that competition is to look at all aspects. We did go to the Navy Comptroller for modifications to some of the typical Government accounting principles and rules, to try and get ourselves on as much an equal basis with industry so that we were both bidding on the same basis.

I think it worked out pretty well. I think most people would agree. Mr. Cocchiola was in charge of that competition, so he could probably provide you with more details about how we accommodated industry, the depots, and how we came up with something that was a pretty fair thing for both to bid on.

Mr. LANCASTER. Alright, Mr. Cocchiola, do you have any comment on that?

Mr. COCCHIOLA. I will just add that when we set that up we were very aware that both industry and the public sector were concerned about the fairness issue. We made a decision within the command to handle those competitions exactly as if they were major systems acquisitions. That means very specific roles and responsibilities for appropriate people in the command. The rules applied as if we were buying an F-14, as much as repairing one. We modeled ourselves after the naval shipyards and the shipyard experience was well reviewed by everybody, including the General Accounting Office, and the Navy, and proved to be workable. We followed that model as closely as possible.

I am pretty positive, that, given that you cannot achieve a 100 percent equal playing field on either side, we have come as close as you can to have a recognized fair and equitable competition.

Mr. HUTTO. All right, thank you. We will have other questions that we will ask you to provide a response for the record. If you could do that in a timely manner, we would appreciate it very much. We appreciate the things we see. I know there have been some positive changes taking place as they improve management techniques and the work flow through the total quality management program progresses, and the high quality of work that is being accomplished by the dedicated civilians is something that we appreciate very much, and we look forward to continuing to work with you and we appreciate very much Admiral DeMayo and Mr. Cocchiola and your people for being with us today. Thank you very much.

Admiral DEMAYO. Thank you, Mr. Chairman.

Mr. HUTTO. The Readiness Subcommittee will recess until Thursday, March 23, at 9:30 a.m., in room 2216, when we will hear from the Army on growth in the Army inventory.

[Whereupon, at 10:41 a.m., the subcommittee adjourned, to reconvene at 9:39 a.m., on Thursday, March 23, 1989.].

[The following questions were submitted to be answered for the record:]

BUDGET IMPLICATIONS OF THE F-14A OVERHAUL CONTRACT COMPETITION

Mr. Hutto: As you recall, with congressional backing, the Navy initiated a program in 1988, in which naval aviation depots and private contractors competed for selected aviation depot maintenance workload. The primary goal of the program is to reduce maintenance costs through improved efficiencies. To date, the Naval Aviation Depots have competed for, and won, two workload packages - - a portion of the F-14A overhaul program and the P-3C avionics package.

We have had the General Accounting Office look over the cost data associated with the F-14A and that analysis raises a couple of questions.

Since F-14A overhauls performed on competition aircraft include basically the same work as the overhauls on non-competitive aircraft, why is the Navy requesting $1.4 million for each of the 27 planned non-competition F-14A overhauls and only $803,000 for each of the 20 planned competition overhauls in 1990?

Admiral DeMayo: Since we are performing the same work on competition and non-competition F-14A airframes, the costs will be the same for both. The two prices found in the fiscal year 1990/1991 budget exhibit were caused by our inexperience in displaying competitive NAVAVNDEPOT contract awards. We displayed a competition price that only included the known basic cost generally common to all F-14 SDLMs. What we neglected to include were the within scope variable requirements that were not included in the fixed price bid. Based on historical experience, this reflects the average additional cost which will be required to fully complete the SDLM for each aircraft. However, since we also realized that the depots could perform these SDLMs more efficiently, per the contract cost, we reduced the non-competitive SDLMs to the same rate. When these changes are made, the prices for competition and non-competition F-14A overhauls and the adjustments average to $1.235 million per aircraft.

As more and more competition overhauls are completed, we will gain a better cost base for estimates. For example, we have emergent maintenance problems in the boron tail assemblies which must be purchased and the material charge will be added to the contract cost, as would be done with a commercial contractor. This could increase the unit cost for specific aircraft to $1.345 million. Even if this cost held for all aircraft, if we compare our fiscal year 1990 costs with similar work for fiscal year 1986, we would realize savings of $325,000 or 20% so it is evident that competition is reducing costs.

Mr. Hutto: How were these estimates developed, given the latest $1.1 Million average cost for each F-14A overhaul?

Admiral DeMayo: The latest costs derived from efficiencies in maintenance have averaged $1.235M across the two depots performing non-competition overhauls. There are differences in costs at these plants. The cost of labor is higher on the west coast. The number you referred to represents a few actual non-competition completions at the east coast site, not the average.

Mr. Chairman, there are two methods for the development of cost estimates. The first, for non-competition overhauls, is basically the average or norm for similar work performed in the recent past. This method allows for performance of work on the average airframe, and is a fixed price estimate. This method has drawbacks, however, since it is about 30 months from the time of estimate development to the execution year. Therefore, budget estimates lag actual execution year experiences, including, in this case, cost efficiencies realized since estimates were developed.

The second method is a new one for us as I have previously mentioned. We responded to a Request For Proposal and bid the overhaul in compliance with this contractual document. The overhaul was awarded to our NAVAVNDEPOTs a few months after the bid was submitted, avoiding delays in the budget process.

We are working with our sponsor and our comptroller to eliminate inconsistencies in the budget display.

Mr. Hutto: The F-14A competition contract called for the annual induction of 20 aircraft with an option for five additional aircraft each year. Does the fiscal year 1990 budget request include these five additional aircraft, and if so, why are they included on the non-competition budget line rather than the competition budget line?

Admiral DeMayo: Mr. Chairman, as you may remember, the number of aircraft projected for overhaul is a product of the Navy's requirement model. All known or anticipated FY 1990 requirements are displayed in the current budget. The award of the F-14A overhaul to the NAVAVNDEPOTs required separate line item accounting. Thus, 20 for the basic contract, are displayed under "F-14A competition" with the balance displayed under "F-14A NIF." If actual fleet requirements increase over the quantity budgeted amount, the "contract" option may be exercised.

The NAVAVNDEPOTS are performing similar work on each "type" of F-14A overhaul. The same number of total overhauls will be performed for the same cost. As I mentioned earlier, I am working with our sponsor and comptroller to make the budget displays consistent.

FEWER AIRFRAMES AND MORE ENGINES OVERHAULED THAN ESTIMATED

Mr. Hutto: GAO's review of the Navy's aircraft rework and maintenance submissions for the past three years revealed that the Navy estimated that more airframes would be overhauled than the number actually performed during the execution year. Conversely, GAO found that, in each of the last three years, the Navy estimated that fewer engines would be overhauled than were actually performed during the execution year.

Why did the number of airframe overhauls decrease and why did the actual unit cost increase over this period and do you expect this trend to continue?

Admiral DeMayo: The Navy's forecast of aircraft reworks was based upon predicted aircraft requiring overhaul as a result of material condition inspections under the Aircraft Service Period Adjustment (ASPA) program. Actual inspections resulted in more aircraft being deferred from overhaul than had originally been predicted. However, many of the aircraft which were not deferred and required overhaul were high technology, more expensive aircraft than had originally been predicted. The forecasting process has been extensively revised to better reflect current data concerning the latest results of the ASPA inspection process. The trend toward fewer aircraft actually overhauled compared to those predicted is not expected to continue. Available airframe funds were needed for emergent engine repairs.

Mr. Hutto: Since the number of airframes overhauled was less than budgeted for the last three years, does this mean that the Navy's current estimates for airframe overhauls is overstated? If not, how has the Navy adjusted its airframe requirements determination process to more accurately reflect its requirements?

Admiral DeMayo: We do not believe requirements are overstated to any significant degree. Reductions in airframe requirements are due to improvements in Aircraft Service Period Adjustment (ASPA) rates. ASPA pass rates (aircraft overhauls deferred) were initially set conservatively because we had no experience. The FY 1985 pass rates were 59 percent for first tour aircraft and 44 percent for second tour aircraft. In FY 1988 pass rates were up to 71 and 63 percent respectively for first and second tour aircraft. Our requirements model used a moving average of ASPA pass rates which lagged actual changes thus overstating requirements. We have now updated our model to utilize only the most recent pass rates which should eliminate variances from projected to actual. In FY 1989 we projected 19 aircraft grounded and our current information shows there will be 21, which is well within a reasonable margin of error.

Mr. Hutto: For FY 1986 through 1988, GAO found that the unit cost for engine overhaul and repair decreased yet the FY 1989-1990 budget estimate shows unit costs increasing. Given that various depots are initiating programs to lower and control material costs, why is the unit cost for engine overhaul increasing?

Admiral DeMayo: The FY 89 unit material costs were escalated by +12.5 percent in the FY 88/89 Amended Biennial Budget submission to reflect inclusion of aviation depot level repairables (AVDLR) component costs in the NIF rates. These costs were previously funded by the airframes and engine programs as material usage from the Navy Stock Fund.

Also, commercial/interservice engine rework costs were updated to reflect actual cost plus escalation guidance.

Significantly, the Aviation Intermediate Maintenance Departments around the Navy are actively encouraged to repair as many engines as possible using AVDLR components whenever possible. One result is that engines which in the past may have been sent to a depot are now being repaired on-site. Those engines which are sent to depots, display a need for more complex, major overhaul. This trend towards a depot repair mix of mostly major reworks is expected to continue.

Additionally, fatique repairs on J52 engines to preclude catastrophic failure, and incorporation of safety changes in F404 engines have increased these unit costs.

Mr. Hutto: What is the Navy doing to make its quantity and unit cost estimates for airframe and engine overhauls more accurate?

Admiral DeMayo: Mr. Chairman, I have addressed above our initiatives to improve quantity and cost estimates for airframes. In the area of engine requirements forecasting, we have an automated engine rework requirements system program for formulating rework requirements. In addition, an upgrade to the model that will incorporate Chief of

Naval Operation Ready for Issue (CNO RFI) goals has recently been developed to improve requirement forecasting.

The mean time between repairs (return rates) utilized for forecasting requirements are kept current by conducting a return rate analysis review at the end of each fiscal year. The historical data is then evaluated and a projected return rate applied to each type, model, series (TMS) for future requirements.

Finally, automation of the CNO originated Aircraft Program Data File was accomplished in FY 1987 and has reduced the manual input of CNO designated flying hours and eliminated input errors.

In order to improve unit cost forecasting, in January 1989, a performance standards program subcommittee was formed to establish objectives, responsibilities, and transition plans for a modern and dynamic program to replace the Performance Standards Program (PSP).

Additionally, Naval Air Systems Command is in the process of issuing a workload standard instruction which will better define the process for establishing engine and aircraft workload standards.

NADEP PERFORMANCE IS LESS THAN PLANNED

Mr. Hutto: I understand that two key indicators used by Navy management to track NAVAVNDEPOT performance are on-time completions of airframe and engine overhauls and planned versus actual calendar days used for overhauls. GAO has found that the Naval Aviation Depots have not been as successful as possible in these two areas.

GAO data indicates that the Naval Aviation Depots only completed overhauls of 56 percent of the airframes and 89 percent of the engines on or ahead of schedule. GAO also found that the Naval Aviation Depots took more calendar days than planned to complete these overhauls.

Why did the Naval Aviation Depots complete so few airframe overhauls on schedule and take more calendar days than planned in FY 1988 and what is being done to improve performance?

Admiral DeMayo: In FY 1988 56 percent of the aircraft were completed on or ahead of schedule against an estimated average turn-around-time (TAT). Actual TAT will vary depending upon the material condition and configuration of the aircraft that are inducted. While our goal is to complete all aircraft on schedule, realistically, some aircraft will exceed the average because of poorer than average material condition, and/or the need for upgrading to the latest configuration. Some will be completed ahead of schedule based on better than average condition. Our most recent data show that for first quarter FY 1989, 69.6 percent of aircraft were completed on or ahead of schedule.

Engine TAT is more predictable as there is inherently less variability between engines when compared to aircraft. Consequently it is more likely that a particular engine will be produced on time when compared to the average. As with aircraft, our goal for engines is to complete 100 percent on schedule. We are continuing to work toward this goal.

FINANCIAL GAINS AND LOSSES AT THE NAVAL AVIATION DEPOTS

Mr. Hutto: As I understand it, an industrial fund activity like a naval aviation depot has a financial goal to break even. Yet GAO has found that for FY 1985 through 1988, the naval aviation depots' customers paid almost $600 million more than necessary to cover the actual cost of goods and services purchased. Why has such a large profit been made and what is being done to come closer to the break even goal in the future?

Admiral DeMayo: Net gains or losses reflected in the Operating Results or Accumulated Operating Results (AOR) account are influenced by stabilized hourly rates that are charged to depot customers. These rates are developed by the activity and are based on budgeted costs and hours, and comply with budget guidance.

The $590 million gain from FY 1985 through FY 1988 was not a profit in the aviation depots. The goal of industrial funded activities is to break even in costs and revenues.

The naval aviation depots ended FY 1984 in a loss position of $289.9 million due to stabilized rates which did not cover all costs. The depots were authorized to add a recoupment factor of $289.9 million into their rates beginning in FY 1985 to recover prior year losses. As the stabilized rates, including the recoupment factor, extended into FY 19[illegible] and FY 1987, the total loss was recovered and the depots gained an additional $300 million. This gain was returned to the O&MN appropriation as part of the FY 1988 congressionally directed rebate. By the end of FY 1988, the aviation depots' AOR reflected a virtual break even point.

Mr. Hutto: GAO has found that the financial gain in the engines and components program has been particularly large. To what degree can prices in these programs be reduced so that the customers' appropriation requests can be reduced and what efforts are being made in this regard?

Admiral DeMayo: In complying with DOD budget guidance, NAVAVNDEPOT stabilized rates were approved to include a recoupment factor to help bring the NAVAVNDEPOTs to a break even position in the AOR account from FY 1985 through FY 1988. Starting with FY 1988 OSD directed that future industrial fund rate should not include recoupment factors but rather should be based on expected cost. This has resulted in FY 1988 and subsequent stabilized rates which more nearly approximate costs and thereby permit a more meaningful comparison of cost among alternatives available to customers of DOD industrial fund activities.

Mr. Hutto: GAO has also found some evidence that problems with the labor standards used to price naval aviation depot repairs have contributed to financial gains and losses in the various product lines. What is the Navy doing to ensure that labor standards are accurate, supported and up to date?

Admiral DeMayo: To improve the workload standards process in the airframe and engine program, NAVAIR is issuing a workload standards instruction defining the process for establishing workload standards.

In an effort to ensure that the labor standards for the component program are accurate, supportable and up to date, we are implementing a variance analysis program. This program will review the top over/under expended items by depot. A fixed number of line items will be reviewed per quarter by each depot. An engineered standard (Class A) will be developed for each item reviewed. This program should be fully implemented by October 1989.

In January 1989, a workload standards program subcommittee was formed to establish objectives, responsibilities, membership and transition plan for a more modern and dynamic program to replace the Performance Standards Program (PSP).

It is felt that these initiatives will substantially improve the accuracy and supportability of labor standards used to price naval aviation depot repairs and provide stabilization of financial gains and losses.

CONTROLLING MATERIAL COSTS

Mr. Hutto: I understand that cost of materials used in the repair of aircraft, engines and components comprises over 43 percent of total repair costs. Obviously, it is essential that material costs be minimized and the Navy has started several initiatives to achieve that goal. However, GAO conducted limited tests at three depots that confirmed one area of continuing concern that has been noted by the Naval Audit Service -- the naval aviation depots' failure to cancel outstanding material orders for aircraft that have completed their overhauls.

What is the current estimate of outstanding material orders at the naval aviation depots for aircraft and engines whose repairs are complete and what is the Navy's policy on cancelling such material orders?

Admiral DeMayo: It is Navy's policy to actively pursue the cancellation of outstanding material on completed jobs. Under the recently implemented NAVAIR Industrial Material Management System (NIMMS) the depots have an automated method to identify outstanding requisitions on completed repairs. They are flagged for manual review. Those requisitions are either cancelled, or reassigned to other valid open jobs where backrobbing may have occurred, or where material delivery dates had to be improved because of costs to production due to material delays. Because of this reconciliation process the dollar value of outstanding material orders at the depots for repairs that are complete at any given time is not readily available.

Mr. Hutto: What is the dollar value of excess inventories that have been accumulated because outstanding material orders for completed aircraft were not cancelled?

Admiral DeMayo: The dollar value of outstanding material orders at depots for repairs that are completed at any given time is not readily available. Under NIMMS, the outstanding material requisition listing flags such situations, but does not run by dollar amount. For the month of March, 521 out of approximately 12,000 requisitions were so marked for manual review at one large east coast depot. These have been either redirected to requiring end items, or cancelled.

Outstanding material orders for completed aircraft generally are still required to fill a hole in pipeline aircraft created by backrobbing. Backrobbing is inefficient but a necessary action to complete an end item when procurement or diversion of parts doesn't satisfy the immediate need.

Our management information systems, financial and material, do not handle this situation automatically. When the material does arrive, an unmatched situation exists when the end item job number has been closed to a financially completed status. A material specialist must then investigate, determine if a backrob situation occurred, and assign the required material to the new, requiring, end item.

Mr. Hutto: What is the status of current initiatives designed to reduce material costs at the naval aviation depots and what are the estimated savings to be realized from these initiatives?

Admiral DeMayo: Initiatives to reduce material costs at the depots include:

a. "Just-in-time" material ordering for bar stock, metals and similar requirements that lend themselves to direct vendor delivery. Depots have been directed to establish such contractual arrangements in order to reduce material inventory and storage costs while providing greater production line efficiency.

b. Several forms of bills of material are in test to better predict the quantity and mix of material required for major overhauls. This is a significant Navy industrial improvement initiative. It is a challenge particularly in a repair environment which is unlike a standard new manufacture environment.

c. One depot is prototyping a front end validation for material requirements. The system rejects requisitions from the work place where quantities exceed established norms and engineered quantities. If it proves satisfactory, it will be exported to all depots.

d. A second prototype effort moves inventory support for an entire engine program from a depot to its supporting naval supply center. If the arrangement proves responsive and does not cause production costs because of material delays, a substantial level of inventory may be deleted.

e. For Defense Logistics Agency Cognizance (DLA COG) items, a test is in progress which direct orders from the depot to DLA, bypassing the local Naval Supply Center (NSC). If the arrangement proves successful, DLA stocks at the NSC's in support of the aviation depots may be greatly reduced.

Mr. Hutto: When will these savings be reflected in out year budget estimates?

Admiral DeMayo: Material initiative savings from the Naval Industrial Improvement Program have been reflected as reduced costs in the FY87 Congressional NIF budget and every subsequent submit. Material savings contributed significantly to the $136M FY87, $200M FY88, $210M FY89 cost reductions which have been removed, up front, from he base cost of operations upon which customer rates are established. The stabilized rates the customer pays already reflect the effect of these initiatives. Savings from inventory reductions will be quantified as they occur in specific inventories.

AIR-LAUNCHED WEAPONS REWORK FUNDS ARE UNDEROBLIGATED

Mr. Hutto: As I understand it, the Navy's Aircraft Depot Maintenance Program includes funds for Air-Launched Weapons Rework which covers Air-Launched Missiles, Ordnance, Ammunition and Special Weapons. GAO has found that in FY 1987 and 1988, the Navy obligated only 81 percent of the $249 Million appropriated for Air-Launched Weapons Rework. Why did the Navy under obligate funding for Air-Launched Weapons Rework and to what extend is this caused by deficiencies in the requirements determination process?

Admiral DeMayo: FY 1987 and FY 1988 obligation performance for the Air-Launched Weapons Rework Program is detailed on Attachment A. Factors which have precluded full obligation of appropriated funding fall into two main categories: Availability of Funds and Requirement Changes.

Availability of Funds. Audit findings and reprogramming to support high priority emergent requirements (e.g., engine rework) were assessed against Air-launched Weapons Rework Program reducing the funding available for obligation as follows:

	FY 1987	FY 1988
Appropriated Funds	$ 105.0	$ 143.5
Audit Findings	0	- .8
Reprogrammings	-11.5	-35.9

Requirement Changes. Budget requests are developed based on the most current data available at the time of submission. However, due to the time lapse between budget formulation and execution, and the dynamics of requirements determinants, the level of funding required is impacted. Factors which are the most dynamic and most likely to impact program obligation rates are described below:

Ship Schedules. Availability of assets for test, repair and modification are largely dependent upon ship schedules. Budget requirements are developed based on the Fleet schedules available at the time of submission. Close coordination is maintained with the Fleet to ascertain shop offload and loadout schedules, and revisions are effected as mandated by the most current operating tempo (e.g. Persian Gulf). When ship schedules are revised, assets are not available to meet scheduled workloads.

Component Failure Rates. The costs associated with the overhaul and major maintenance of weapon components represent the most expensive unit cost of the Air-Launched Weapons Rework budget. Due to the complexity of component repair and the personnel skill levels required, the cost per unit is much higher than that associated with weapon testing and minor maintenanc . Historical component failure data is maintained for each air-launched weapon and the average is used to project budget requirements, however, the actual component failures experienced vary, based upon the amount of handling and exposure to the environment the weapon receives.

Unit Costs. The per unit costs for weapon test, repair and modification installation used to develop budget requirements are based on the actual costs charged at the time of budget submission and are adjusted to incorporate escalation guidance. For the past nine years, the Air-Launched Weapons Program has invested funds to develop an industrial standards program designed to improve productivity and maintain the air-launched weapons inventory at reduced costs. This program has provided performing activities with engineered labor standards for required maintenance, and has served to heighten awareness of potential productivity improvements. As a result of the industrial standards program, the actual costs incurred for weapon maintenance and modification installation are often less than originally budgeted due to productivity gains realized at the performing activities. These are then built in to the next (following) budget submissions.

Weapons Modification. Weapons modification hardware kits are funded by WP,N, while the installation of the modification hardware is funded by O&M,N. O&M,N modification installation budgets are developed based on the projected kit inventory at the time of budget submission. Delays in the production of the required modification kits, as well as revisions to ship schedules (impacting asset availability), preclude the installation of weapon modifications as originally scheduled.

	APPROPRIATED	OBLIGATED	DELTA
FY 1987			
Missile Rework	$ 65,160	$ 56,721	($ 8,439)
Ordnance/Ammunition Rework	33,441	30,299	(3,142)
Special Weapons Maintenance and Support	6,386	6,456	70
Total	$104,987	$ 93,476	($11,511)
FY 1988			
Missile Rework	$ 90,519	$ 62,883	($27,636)
Ordnance/Ammunition Rework	46,873	37,704	(9,169)
Special Weapons Maintenance and Support	6,121	6,199	78
Total	$143,513	$106,786	($36,727)

Mr. Hutto: Why have there been such wide fluctuations in the budget request for Air-Launched Weapons Rework in recent years? For example, why did the request increase from $107 million in FY 1987 to $153 million in FY 1988. Also, why did the request decrease to $97 million in FY 1990 from $137 million in FY 1989?

Admiral DeMayo: Efforts funded by the Air-Launched Weapons Rework program fall into three major categories: Maintenance, Modification, and Engineering Services Support. Of these, the engineering services support remains fairly constant from year to year. Therefore, since maintenance and modification are the principal areas causing the fluctuations between fiscal years, only these areas will be addressed.

Maintenance requirements are directly related to the quantity of weapons requiring test or repair in a given fiscal year in order to maintain the directed asset readiness levels. The Navy employs a Reliability Centered Maintenance (RCM) concept to maintain the Air-Launched Weapons inventory. Based on the results of extensive component testing performed by weapons quality evaluation personnel, each weapon system is assigned a Serviceable-In-Service-Time (SIST), which indicates the length of time (in months) a weapon can remain available to the Fleet. SISTs vary from 18 months to 60 months depending on the weapon system. These differentiating SIST assignments result in varying maintenance cycles for each air-launched weapon, causing the number of weapons requiring test/repair each year to fluctuate.

Modifications are technical changes to weapon systems effected by the installation of approved Engineering Change Proposals (ECPs) for safety, reliability, maintainability or improvement purposes. Modifications may be performed on a select grouping of weapons or the entire inventory and may be as simple as a stenciling or as complicated as fixing circuit boards in a guidance section. Modifications are performed when the weapon/component is brought into the weapon station/depot for testing and/or repair. Modification requirements are driven by the number of ECPs requiring installation, the inventory/delivery or modification kits and the projected number of assets available (explained above) for modification. The number and complexity of installations will vary from year to year as will the quantity of weapons to be modified. Due to all of these variables, the modification program is continually dynamic and therefore, contributes the most change in budget formulation.

SHORTAGE OF A-6 AIRCRAFT WINGS

Mr. Hutto: Because of aircraft wing problems, the operational capability of the Navy's A-6 fleet is currently degraded. To correct the problem, the Navy contracted with Boeing to develop a new wing made of composite material. However, because of many problems encountered with the development of a new wing, Boeing has fallen about one year behind schedule in delivering the wings. What efforts are underway to ensure that delivery of the new A-6 composite wing is not delayed any longer and when will the operational impact to the fleet be corrected?

Admiral DeMayo: Most of the technical problems encountered on the wing program were identified as a result of the static test program that has been ongoing in Wichita since August 1988. The most critical static test event (6.5g asymmetric load) will occur incrementally 3 - 9 April 1989. Upon successful completion of this test event, program risk will be reduced significantly. However, to minimize the risk of further program delays, the following actions are being taken:

a) Program Management Reviews (PMRs) are being conducted on a monthly basis to ensure program issues receive high visibility and top program management attention;

b) During the past 9 months, the Air Force has conducted two Contractor Operations Review (COR) audits and Boeing has conducted an extensive internal audit. Each of these audits helped ensure top Boeing corporate management attention was given to the urgent requirement for composite wings;

c) A weekly conference call is held between Boeing, Grumman, and the Navy to address the progress of installation of delivered wings;

d) An engineering meeting is held bi-weekly to review any open engineering issues and requirements in support of the upcoming flight test program in Patuxent River;

e) To accelerate delivery, wings are being accepted with outstanding "Production Revision Requests (PRRs)" which are engineering changes that have been identified as a result of the prototype installations and the static test. The PRRs are categorized into "Block Mods" and scheduled for retrofit in delivered wings by Boeing field mod teams at the wing installation sites.

Grounded A-6 aircraft will be the first to receive composite wings; based on current schedules, all presently grounded A-6s will be rewinged and returned to fleet operational status by the end of FY 1990. In addition to the rewing program, enhancements to the existing metal wing have been identified (airframe change numbers 562 and 601) that will help ease near-term fleet operational shortfalls. These enhancements, primarily "cold working" of approximately 900 holes, will lift the 3g restriction currently placed on some 114 aircraft but will not extend wing fatigue life. Many of these aircraft will still require replacement wings upon reaching 100% fatigue life.

Mr. Hutto: Will installation of the new composite wing for the A-6 be performed at the naval aviation depots or commercially by contractors, and what is the basis for this decision? Also, will installation be part of each aircraft's overhaul package?

Admiral DeMayo: Installation of the new composite wing will occur at both NAVAVNDEPOTs (Norfolk and Alameda) and commercial sites (Grumman St. Augustine Corp. and Boeing Military Airplane). Installations are split approximately 47% - 53% between organic and commercial sites. Factors used in the selection of install sites and the quantities allocated each are price, capability, capacity, and output schedule. Concurrent rewings by organic and commercial activities results in a "surge capability" if needed. Installations by NAVAVNDEPOTs are required in order to develop/sustain rewing installation capability.

The aircraft will receive Standard Depot Level Maintenance (SDLM) concurrent with each rewing.

BACKLOG OF NAVY AVIATION DEPOT WORK IS INCREASING

Mr. Hutto: Since FY 1987, naval aviation depot backlogs have grown from a noise level problem to over $150 Million and will remain at that level for the foreseeable future. By comparison, current backlogs are triple the size of those the Navy was agonizing over in the bad old days of the early 1980's.

What impact is this maintenance backlog having on fleet readiness? Specifically, which aircraft were grounded in FY 1988 and which may be grounded in FY 1989 and 1990?

Admiral DeMayo: The current executable backlog in the aircraft rework program for FY 91 is $115.8 Million. The comparable figure for FY 81 adjusted to FY 91 constant dollars is approximately $126 Million. Thus our current projected backlog is slightly less than what is was eight years ago.

The current backlog displayed in the budget is manageable and does not substantially affect fleet readiness. The aircraft overdue for maintenance is still less than 3 percent of the inventory in FY 91. The engine backlog of 790 units in FY 91 results in engine pools being at 77 percent of the requirement. This level should cover most requirements, although some short-term spot shortages may result.

One of the significant drivers to readiness has been component repairs. The stock funding of aviation depot level repairables moved the funding for component repair from Aircraft Rework to the Fleet Flying Hour Program in FY 85. This results in a balance between component generations and repair funding so mission capable (MC) rates have remained high. The projected MC rates are 72 percent in FY 89; 71 percent in FY 90 and 70 percent in FY 91 versus a goal of 73 percent. By comparison the MC rates in FY 81 and FY 82 were 59 percent and 62 percent, respectively.

The specific aircraft grounded at the end of FY 88 were:

2 CH53E, 1 EA3B, 2 A4E, 1 TA4J, 1 OV10A, 1 UH1N and 1 AH1J

For FY 89 the budget predicted that 19 aircraft would be grounded. Our best current estimate is that 21 aircraft will be grounded. These aircraft are projected to be:

3 A4E, 2 EA7L, 1 ERA3B, 1 OV10D, 1 SH3D, 1 UH1N, 2 SH3H, 3 CH46E, 2 CH53E, 2 A6E, and 3 AV8B. We are not able to predict FY 90 at this time but would expect the same general mix as in FY 89.

Mr. Hutto: What impact are these backlogs having or projected to have on the workload and personnel levels at the various naval aviation depots?

Admiral DeMayo: We anticipate no significant workload impact on the naval aviation depots. Our funded workload and personnel are balanced. Our manpower will decrease slightly from 23,375 workyears in FY 89 to 22,709 workyears in FY 91.

Mr. Hutto: How does the Navy decide which aircraft or engines will not receive needed depot maintenance?

Admiral DeMayo: Aircraft or engines funded are based on fleet priorities. In general, tactical aircraft are the first priority as may be seen above by the relatively few numbers of those types of aircraft grounded. Priorities can and do change, however, between budget preparation and execution of the budget year, and we will respond to those changes.

Mr. Hutto: Which aircraft, engines and modifications are included in the actual backlog for FY 1988 and the expected backlog for FY 1989 and 1990? Provide the subcommittee a list identifying these items by Type, Model, and Series.

Admiral DeMayo: The backlogs for FY's 1988, 1989 and 1990 are provided on attachments (A) and (B).

The FY88 O&MN Modification Backlog of $23.1 Million, all of which is being executed in FY89, consists of the following:

$1.2M F-14A+ Repair Incident to MOD (RIM) necessary to complete SDLM of last increment of aircraft inducted at Grumman in FY 88.

$8.1M A-6E - RIM to complete SDLM of last increment of aircraft for TRAM (Target Recognition and Attack Multisensor) at Grumman inducted in FY 88

$8.0M KA-6D - RIM to complete SDLM of last increment of aircraft inducted for SR&M at Grumman in FY 88

$5.8M EA-6B - RIM to complete SDLM of last increment of aircraft inducted for Improved Capability (ICAP I) to ICAP II at Grumman in FY 88

The FY 89 O&MN Modification backlog estimate of $153.5M includes $19.5M non-executable due to the slippage in A-6E wing deliveries and F-14 material which cannot be installed until FY 91 or 92 due to aircraft pipeline capacity. The $153.5M backlog consists of:

AIRCRAFT TMS	MODIFICATION
OV-10	A to D Conversion
P-3	Special Projects
S-3	APU, Radar Transmitter and FLIR
H-3	Service Life Extension Program (SLEP)
AH-1T	T to W Conversion 8 Aircraft & associated SDLM costs
EA-6B	Associated SDLM costs concurrent with ICAP II mod at Grumman.
A-6E (1)	Wing slippage and AVDLR/RIM costs
KA-6D	Associated SDLM costs concurrent with R&M mod at Grumman

E-2	Increased work scope on Outer Wing Panels
C-2 (3)	Center Wing/Outer Wing Panels
F-14 (2)	F-14 material delay

(1) Non executable due to slippage of 10 of 25 A-6E wing deliveries from Boeing (Effort slips to FY 1992/93 due to aircraft pipeline capacity (FY 1990/1991))

(2) Delayed delivery of F-14 material from Grumman and NADEP (Install will slip to FY 91 as FY 90 is at aircraft pipeline capacity)

(3) Material provided through negotiations - no additional cost to APN-5, but O&M,N required for installation.

The Naval Air Systems Command O&M,N FY 90 President's Budget reflects a total requirement of $448.8M The backlog estimate reflects $19.5M slippage in FY 89 for the A-6E wing deliveries and F-14 material which cannot be installed until FY 1991/92 due to aircraft pipeline capacity.

While the FY 90 estimates are well documented, the specific platforms affected have not yet been prioritized. The unfunded aircraft modifications will be specified after due consideration of the variables involved in the prioritization process such as global commitments, airframe/material availability, contract coverage.

Cost of the uninstalled material and its location can be detailed once the O&M,N requirement has been prioritized.

AIRFRAME/MODIFICATION PROGRAM FY 90/91 BACKLOG

TMS	PROGRAM	UNFUNDED FY 88	UNFUNDED FY 89	UNFUNDED FY 90	UNFUNDED FY 91
A-4E	SDLM	1	3	2	2
A-6E	S/CD	0	0	0	1
A-7E	SDLM	2	0	3	3
AH-1J	SDLM	1	0	0	0
C-130F	SDLM	0	1	1	1
C-2A	SDLM	0	1	0	1
CH-46D	SDLM	0	1	1	1
CH-46E	SDLM	0	0	9	9
CH-53A	SDLM	1	7	6	6
CH-53D	SDLM	0	0	0	2
CH-53E	SDLM	2	0	0	0
CT-39G	SDLM	0	1	0	0
EA-3B	SD M	1	1	0	0
EA-7L	SDLM	0	1	0	0
EP-3A	SDLM	0	0	1	1
EP-3E	SDLM	0	1	1	1
ERA-3B	SDLM	1	0	0	0
F/A-18A	S/CD	0	0	0	1
F-14A	S/MOD	1	0	0	0
F-14A	SDLM	0	0	3	0
F-4S	SDLM	0	0	1	1
HH-2D	SDLM	0	1	0	0
HH-3A	SDLM	0	0	1	1
HH-46D HEFS	S/MOD	0	0	7	23
KA-3B	SDLM	0	1	1	2
KA-6D	SDLM	0	1	5	12
KC-130F	SDLM	0	2	7	10
NA-4F	SDLM	0	1	1	1
OV-10A	SDLM	1	0	0	0
OV-10D	SDLM	0	2	3	1
P-3B	SDLM	0	0	2	2
P-3C	SDLM	0	0	1	0
RF-4B	SDLM	0	0	2	1
RH-53D	SDLM	0	1	0	0

SH-3D	SDLM	0	0	2	0
SH-3G	SDLM	1	3	3	7
TA-4J	SDLM	1	6	7	14
TA-7C	SDLM	0	0	3	9
TC-4C	SDLM	1	0	0	0
TP-3A	SDLM	0	0	2	4
UA-3B	SDLM	0	0	1	1
UH-1N	SDLM	2	5	0	0
UH-3A	SDLM	0	1	2	2
UH-46D	SDLM	0	0	1	2
UH-46D BLK	S/MOD	0	0	4	4
UH-46D HEFS	S/MOD	0	0	0	1
UP-3A	SDLM	0	1	3	5
US-3A	SDLM	0	0	1	2
VH-3A	SDLM	0	0	0	1
TOTAL		16	42	87	135

ENGINE PROGRAM FY 90/91 BACKLOG

TMS	UNFUNDED FY 88	UNFUNDED FY 89	UNFUNDED FY 90	UNFUNDED FY 91
OVERHAUL				
J57P10	0	21	24	38
J85GE21	0	1	2	3
J85GE5	0	1	0	0
O4704	0	0	0	1
PT6A25	0	0	0	5
PT6A34B	0	0	3	3
T58GE400	0	0	0	1
REPAIR				
250-C20	0	0	5	10
CFM-56	0	0	10	25
F110GE400	0	0	0	12
F402RR406/40	0	18	22	22
F404GE400	12	20	41	62
F404GE400C	1	6	0	27
F404GE400F	12	8	0	11
F404GE400H	5	4	5	16
F404GE400L	0	6	4	10
F404GE400S	0	0	2	4
F405RR400	0	0	0	5
J52P408	28	0	27	39
J52P408A	0	35	13	1
J52P6B	19	0	6	5
J52P6C	0	0	1	0
J52P8B	47	1	30	34
J52P8C	0	0	24	54
J67P10	0	0	0	5
J60P3A	0	0	1	1
JT8D9AHS	0	1	0	0
T400CP400P	0	10	17	17
T400WV402P	0	2	0	0
T56A10WAP	30	23	21	9
T56A14P	7	16	22	30
T56A16P	0	1	3	2
T56A425P	4	0	3	8
T56A427P	0	0	0	1
T56A7P	2	0	3	3
T58GE10	19	0	0	0
T58GE10402	0	38	38	38

T58GE16	6	12	7	14
T58GE402	0	0	7	35
T58GE8F	11	25	22	26
T64GE413	1	0	0	2
T64GE415	0	0	0	1
T64GE416	3	6	6	5
T64GE6B	3	5	5	6
T700GE401	0	10	21	22
T700GE401C	0	26	43	55
T700GE401H	0	16	10	10
T700GE401T	0	11	21	30
T700GE401W	0	1	1	1
T76G418	0	0	2	2
T76G419	0	0	1	0
T76G420	0	0	1	2
T76G421	0	0	2	5
TF30P414A	0	0	0	30
TF34GE400B	7	5	2	21
TF41A402D	19	3	13	21
TOTAL	236	332	491	790

Mr. Hutto: Given that the modification materials are purchased two years before installation, what means does the Navy use to coordinate the purchase of material with the installation budget?

Admiral DeMayo: Naval Air Systems Command uses the Program Management Proposal where approval for full production are received, the Operational, Safety and Improvement Plan (OSIP), and then weekly Command Configurations Change Control Boards to review Engineering Change Proposals for modification of Navy aircraft. The board consists of an extensive complement of engineering, logistics and program experts who assure all procurement, design, and logistics elements have been satisfied before procurement and installation is approved. Because modifications may be procured incrementally over a five year period, the program office submits a revision for each year's follow-on procurement to the Change Control Board. This allows the dynamics of the program such as changes in deliveries, pricing, support structure, etc., to be reflected in execution.

A Program Management Review is held annually to ensure that each platform plan, including Change Control Board approved modifications, remains in line with command/DOD objectives and schedules.

Logistics Requirements Funding Plan reviews are performed for each platform on an annual basis to ensure that all logistics elements are identified and on target to support the program.

Other significant reviews include the Logistics Review Group audits conducted prior to each major program milestone, Acquisition Review Board and Acquisition Program Review Board.

Mr. Hutto: If the purchase of material and the installation budget are coordinated, to what extent has the Navy reduced its modification material procurement in FY 1989 and planned procurements in FY 1990, due to the expected shortage of installation funds?

Admiral DeMayo: The FY 1990 APN-5 request was significantly scaled back to $601 Million from the $932 Million appropriated in FY 89. This reduction improved the balance between modification kit procurement (APN-5) and installation (O&MN) for FY 92 and FY 93. O&M,N funding has also been increased by $17 million in FY 90 and $36 million in FY 91 over FY 89 to help reduce backlog to the current level.

Mr. Hutto: What was the cost of modification material purchased in prior years that was not installed in FY 1988 because of the lack of installation funds?

Admiral DeMayo: The FY 88 modification backlog of $23.1 Million consisted of associated costs to complete the SDLM of aircraft inducted and modified at contractor plants as follows:

$1.2M	F-14A+	To complete aircraft modified at Grumman in FY-88
$8.1M	A-6E	To complete aircraft modified with TRAM (Target Recognition and Attack Multisensor) at Grumman in FY-88
$8.0M	KA-6D	To complete aircraft modified at Grumman in FY-88
$5.8M	EA-6B	To complete aircraft modified at Grumman in FY-88

Mr. Hutto: Which aircraft will not have modification material installed as scheduled in FY 1989 and 1990, what was the cost to purchase this uninstalled material and where is it located?

Admiral DeMayo: The material associated with the FY 1989 backlog of $153.5 is as follows by type, model, series:

TMS	APN5 ($000) material	Location
OV10A to D	$89.4	Rockwell International Palmdale, CA
P-3 SPECIAL PROJECTS	$14.0	Lockheed Ontario, CA
S-3	$17.4	Lockheed Burbank, CA Texas Instruments Dallas and Plano, TX Loral in Atlanta, GA
H-3 SLEP	$ 3.0	Supply at NAS Pensacola NADEP Pensacola, FL
EA-6B	$ 7.1	Grumman Calverton, NY
AH-1T/W	$40.8	Bell Helicopter Fort Worth, TX Lot II- RIM/AVDLR for Lot I
A-6E	$38.9	Boeing Wing and Block Mod Slippage (10) *RIM/AVDLR for FY 88 Grumman St. Augustine, FL
KA-6D	0	*RIM/AVDLR, Grumman St. Augustine, FL
F-14	$33.0	Grumman material delivery (slips to FY 91 as FY 90 is at aircraft pipeline capacity)

*RIM (Repair Incident to Mod), AVDLR (Aviation Depot Level Repairables) for SDLM concurrent with mod at contractor plants.

MONITORING COMPETITION AWARDS TO THE NAVAL AVIATION DEPOTS

Mr. Hutto: Now that the naval aviation depots have been successful in competing for work under public/private competition for the F-14A overhaul and P-3C avionics update, the Navy is obligated to insure that the "contract" is properly executed. Yet GAO has found a number of serious problems with the level of oversight provided by on-site detachments reporting to the Naval Air Systems Command.

For example, to what degree is a four-person on-site detachment sufficient for performing the required work request approvals and oversight tasks for monitoring the F-14A contract?

Admiral DeMayo: The on-site detachment monitoring project orders awarded to naval aviation depots provides a contract administration oversight function that consists of evaluating the technical merit of change order proposals, negotiating and authorizing changes, maintaining records and reporting status of change activity to NAVAIR. The personnel resources assigned to perform these tasks are deemed minimally sufficient to monitor the current project orders. Some clerical/record-keeping assistance has been requested and resources to provide this function are being identified. Additional tasks typically performed by on-site contract administration personnel, such as quality management and material surveillance, are being performed by the naval aviation depots. The processes and system used by the naval aviation depots to perform these functions have been evaluated on numerous occasions and found to be acceptable. Periodic review of naval aviation depot quality management and material surveillance procedures is performed by the Naval Aviation Depot Operations Center to ensure appropriate controls meet Navy requirements. Additional staffing will be provided to each detachment if and when current workload activity increases or contract administration responsibilities are expanded.

Mr. Hutto: With regard to the recent competition efforts won by the naval aviation depots, identify any contract provisions not included in the contracts awarded to the Naval Aviation Depots which would have been included had a private contractor won the competition.

Admiral DeMayo: Mr. Chairman, in general, the following contract provisions, considered unnecessary for or unenforceable against a public entity, were excluded from the naval aviation depot project order but would have been included in the contract for private contractor:

Section H "Special Provision"

- Shipment marking requirements;
- Paying office and invoicing provisions;
- Transportation codes;
- Subprovisions of "Over and Above Work Requests" entitled "Progress Payments - Expenditure Limitation for Ceiling Price Orders", "Qualifying Proposal" and "Cost of Pricing Data";
- Clause entitled "Government Property for the Performance of this Contract (Fixed Price) (APR 1985 (FAR

52.216-21)";
- Clause entitled "Contractor Furnished Material for SDLM";
- Clause entitled "Requirements (APR 1984) (FAR 52.216-21)";
- Clause entitled "Limitation of Requirement";
- Clause entitled "Government Property Provided for SDLM";
- Clause entitled "Option for Increased Quantity - Separately Priced Line Item" (APR 1984) (FAR 52.217-7);
- Clause entitled "Government Acceptance Check Flight";
- Clause entitled "Protection of Sensitive Weapons and Technologies Information" (SEP 1985) (NAVAIR 52.204-9503);
- Clause entitled "Ground and Flight Risk" (OCT 1975) (DOD FAR SUP 52.228-7001);
- Clause entitled "Protest After Award" (JUN 1985) (FAR 52.233-3);
- Clause entitled "Certification of Indirect Costs" (APR 1986) (DOD FAR SUP 52.242-7003);
- Clause entitled "Availability of Funds for the Next Fiscal Year" (APR 1984) (FAR 52.232-19);

- Clause entitled "Special Distribution - Material Inspection and Receiving Report (MIRR)" (DD Form 250 Series) (APR 1985) (NAVAIR 52.246-9500);
- Clause entitled "Additional Definitions with respect to "Ground and Flight Risk" clause (APR 1985) (NAVAIR 52.228-9500);
- Clause entitled "Ordering" (APR 1984) (NAVAIR 52.216-18);
- Clause entitled "Substitution of Key Personnel";
- Clause entitled "Subcontracting Plan - Small Business and Small Disadvantaged Business Concerns (APR 1985) (NAVAIR 52.219-9500);

Section I - Contract Clauses

All Section I clauses were excluded from the project order. A copy of the excluded clauses will be submitted under separate cover.

Mr. Hutto: All parties with contract oversight functions are currently within Naval Air Systems Command. In similar competition programs for ship overhauls, the Secretary of the Navy established the Naval Audit Service as an independent third party to certify contract performance. Would a similar arrangement be beneficial in overseeing the naval aviation depots' contracts and, if not, why not?

Admiral DeMayo: The Naval Audit Service will perform the same oversight function for the naval aviation depots as they do for the naval shipyards.

Mr. Hutto: Since the competition effort adds reporting and accounting requirements not normally encountered in Naval aviation depot operations, what has the Navy done to ensure that the information systems currently in place can accurately handle reports showing work in process, work completed and material charges?

Admiral DeMayo: The reporting and accounting requirements levied upon the naval aviation depots' issued project orders for competition workload are not readily accommodated by the current workload control system used by the naval aviation depots. The NAVAIR Industrial Financial

Management System (NIFMS) used to track and report naval aviation depot workload and financial information is being modified to accommodate the reporting requirements which will be levied upon naval aviation depots that bid successfully during public/private competition. These reporting requirements are the same as required of private offerers of depot maintenance services. The changes to the NIFMS will be implemented by October 1989. In the interim, cost and schedule status reporting will be provided to NAVAIR based on data and information collected by the Program Management Representative on-site at the naval aviation depot through the procuring contracting officer at the Naval Aviation Depot Operations Center. No additional information is required above and beyond what is already available to support NAVAIR management decisions on competition.

Mr. Hutto: According to GAO, Navy officials indicated that, in support of competition, decisions to repair aircraft components concurrently with airframe and engine overhauls, rather than obtaining the components from the Navy supply system, are being made based on the lower cost to the Naval Aviation Depots. This infers a change to policy has been made, and if so, will the change apply to both competition and non-competition aircraft?

Admiral DeMayo: My response to your question is a qualified "yes." Concurrent rework is prescribed in certain situations for both organic and commercial competitive aircraft overhauls. Qualification for award of competitive contract includes the demonstrated capability of a bidder to repair a specifically identified group of components.

This capability not only aids in qualifying an activity, but it also provides limitations on the quantity of Government Furnished Material (GFM). Additionally, concurrent rework frequently provides expedient and economical means of repairing or overhauling components. Reduced costs and decreased repair turn-around time benefit the overhaul site and the Navy.

A joint Naval Air Systems Command/Naval Supply Systems Command initiative is to change Navy policy and permit concurrent rework on non-competitive aircraft when the designated overhaul point determines it to be expedient and economical. In both competitive and non-competitive situations, organic or commercial, mandatory use of the Navy supply system is directed for those assets which are codified as long supply.

Mr. Hutto: If profits and losses are combined for both competition and non-competition workload, profits from one type of workload could be used to offset losses in other types of workload. What controls are in place to insure that profits and losses for the non-competition and competition aircraft are accounted for separately?

Admiral DeMayo: Directives have been issued and processes implemented to ensure that the costs and revenues incurred as a result of executing competitive work is accounted for and reported separately, and is identified within a distinct accumulated operating results (AOR) account.

Financial oversight is provided by the Naval Aviation Depot Operations Center (NADOC). The naval aviation depot financial reports for competition workload are provided to NADOC through the on-site Naval Plant Representative Office detachment. NADOC monitors allotted versus expended funds and estimates at completion, ensuring all gains or losses are accounted for separately and distinctly.

DEVELOPMENT OF A NEW WORKLOAD SYSTEM FOR THE NAVAVNDEPOTS

Mr. Hutto: I understand that the Naval Air Systems Command has been working on a new workload control system for the naval aviation depots since 1982. Despite the expenditure of almost $50 million since that time, only two of the originally planned eight subsystems have been completed.

If the redesign of the naval aviation depot workload control system is crucial to effective and efficient operations of the depots, why has the redesign effort taken so long and what is the impact on operations of not having a new system in place?

Admiral DeMayo: The workload control system redesign is essentially a redesign of an existing operational system. The redesign is intended to improve current operating processes through streamlining and the incorporation of newer information systems technology. Completion of the redesign was originally scheduled for 1992. This time frame for completion reflects a systematic approach to incrementally design, test, and implement the individual modules at six sites without disrupting day-to-day operations. The development phase of the redesign has no effect on current depot operations.

Upon completion, four of the original eight planned modules will be implemented. However, emergent high priority new system requirements, not included in the initial plan, have been added to the redesign plan and will also be implemented. These new requirements include the competition module, reflecting the Navy's recent initiative to compete for workload against the private sector, and the Navy Standard Civilian Payroll System. Each of these was considered to be more important to efficient operations than elements of the originally planned redesign.

Mr. Hutto: What other alternatives are being considered for replacing the existing workload control system?

Admiral DeMayo: The workload control system forms one of the core "corporate systems" which comprise the total Naval Aviation Depot Information System (NADIS) architecture. NADIS is a strategy to integrate aviation depot business strategy and systems with command-wide and Navy-wide information management systems. Future plans are to draw upon information technology from the private sector and, with maximum use of tested and proven off-the-shelf systems technology, transition the workload control system to a Manufacturing Resource Planning (MRP) and Computer Integrated Manufacturing (CIM) operating environment. This is consistent with the direction industry in general is going.

Mr. Hutto: What was the basis for the decision to terminate development of the redesign effort. Also, how much money will be saved by terminating systems development at this point and can this amount be deleted from the budget?

Admiral DeMayo: Completion of the workload control system redesign, as noted above, is based on two factors: (1) changing business strategies; and (2) emerging information management technology. In order to maximize performance and quality, and remain a competitive source of repair, the naval aviation depots have adopted a business strategy to fully implement Manufacturing Resource Planning (MRP) within a Computer Integrated Manufacturing (CIM) environment. Information management technology to support this business strategy has evolved only in the past few years. This technology, including both hardware and software, incorporates a relational data base management system operating in a distributive environment. This provides the capability to interface all local systems and hardware in an integrated system network, presents users at the shop level with a flexible tool to create desired data and analyses, and provides management at all levels with real time information to assess the health of the organization. The workload control system, although operational today, is of an older design. It is not well suited, nor was it envisioned, to function effectively in the MRP and CIM environment. Thus, a decision was made to complete the redesign effort at a point where it can be effectively transitioned to MRP and CIM without losing the value of what has been completed.

The workload control system redesign was originally budgeted at $50.0 million. Approximately $49.7 million has been expended. Final costs are estimated to be $52.8 million including $2.8 million for related design work originally budgeted as current systems maintenance, but upon review, determined to more appropriately apply to the redesign. Therefore, there is no savings associated with our decision to bring the redesign to a conclusion.

ENVIRONMENTAL ISSUES AFFECTING NAVAL AVIATION DEPOT OPERATIONS

Mr. Hutto: As you are aware, environmental issues are of increasing concern in the Naval Aviation Depot Community. Over the past several years, meeting environmental standards has become more expensive and has restricted some depot operations. To what degree have environmental requirements impacted on the Naval Aviation Depot's ability to efficiently meet production goals? If possible, quantify these impacts in terms of production delays and increased costs.

Admiral DeMayo: Yes, environmental regulations have had an impact on the operations at the Naval Aviation Depots. We have had to modify materials and processes to meet those regulations; sometimes those modifications have caused increases in time and cost to complete the work. This is a negative effect on our productivity. However, we firmly believe that each restrictive environmental regulation offers us an opportunity to develop cleaner and better processes. Though it is not always possible we try to make each environmentally directed change one that will increase rather than decrease our productivity and the quality of the product which we deliver to our customer.

At Pensacola we had to change the method for stripping the paint from aircraft from a phenolic, direct wash operation, to a non-phenolic, dry operation in which the stripper is "squeegeed" off the aircraft and is collected, together with the stripped paint, on paper, and drummed for disposal. This change has meant a 33% increase in man-hours and an 83% increase in material cost and an overall operational cost increase of 53%.

Compliance with California low volatile organic compound paint requirements led to changes in the paint formulation at North Island. This was a true success story for us since we were able to have the paint developed, prepared and delivered in time to meet the compliance deadline. There are cost and operational effects to be considered though. The increase in cost for the new paint is upwards of 300%. That cost is expected to fall as other entities and private industry order more of it for their own compliance action. Low volatile organic paint was introduced into the maintenance system without adequate performance testing for resistance to salt water. This may result in aircraft being reintroduced into the maintenance process sooner due to corrosion. Testing will have to be completed when the aircraft return from sea duty.

The change from a high volatile organic paint to a low volatile organic high-solid paint had a negative impact on the operation to balance helicopter blades at North Island since the new paints are thicker and add weight to the blades. The added weight causes additional balance errors and the reject rate has increased over 75%. The rejected blades are reintroduced into the program and may have to pass through the system several times before they are finished.

Mr. Hutto: What is being done to make the Cherry Point electroplating facility operational?

Admiral DeMayo: Two options to make the Cherry Point plating shop operational are being developed. The options are an engineering change to the facility, and legislative relief through Congress. Alternative engineering changes have been prepared and are being reviewed to determine which is the most effective. The cost of an engineering change would be upwards of $3 million.

Legislation is being considered which would allow the domestic wastewater treatment plant at Cherry Point or any other domestic wastewater treatment plant owned by a military department to be afforded the "domestic sludge exclusion." This exclusion is available to all publicly owned treatment works. Our wastewater from the plating shop is properly pretreated in accordance with all EPA pretreatment regulations prior to discharge to the domestic wastewater treatment plant. This change would allow the new plating facility to be operational.

Mr. Hutto: Are you experiencing problems similar to Cherry Point at other naval aviation depots?

Admiral DeMayo: Yes, the problems involving treatment of plating shop effluent exist at other naval aviation depots. However, each instance is different and is being addressed separately. Legislation being considered due to the problem at Cherry Point will have a positive effect on all of the waste water treatment works serving the naval aviation depots.

Mr. Hutto: Given the seriousness of Norfolk's PCB fire, what progress has been made by naval aviation depots in eliminating these transformers?

Admiral DeMayo: We are concentrating on the removal of high risk transformers, located in or near buildings, from the naval aviation depots. The Naval Aviation Depot at Cherry Point has successfully removed and replaced all of its high risk transformers. The present schedule is to have all PCB transformers, high risk and non-high risk, removed from the naval aviation depots or retrofitted by FY91.

Mr. Hutto: What is the current status and cost of the contractor study to ascertain the environmental compliance of the naval aviation depots?

Admiral DeMayo: The contractor study of the environmental compliance of the naval aviation depots is divided into two parts. The first part, Phase I, is to develop an assessment of the compliance of each of the naval aviation depots in thirteen environmental areas covered by different regulations. The second part of the contract, Phase II, is to develop programs to assist the naval aviation depots to maintain compliance with present and proposed environmental legislation, and, within current technology, develop the best possible environmental position.

We have reviewed all the Phase I draft reports on the naval aviation depots. The final Phase I reports on the individual naval aviation depots will be delivered by the contractor in April 1989. The draft summary Phase I report has also been reviewed and comments given to the contractor. The final Phase I summary report is due in May 1989. The cost of Phase I is $650,000.

We are presently deciding on the best means to utilize Phase II in light of the information received in Phase I of the contract.

FUTURE PRIVATE - PUBLIC AVIATION MAINTENANCE WORKLOAD COMPETITIONS

Mr. Hutto: On page 3 of your prepared statement, you indicate that you plan to conduct more public-private competitions for aviation maintenance workload, on a limited basis. What kinds of workload will be involved and what do you mean when you say "on a limited basis?"

Admiral DeMayo: We intend to compete workloads which include aircraft maintenance, component repair, and manufacturing of selected defense articles. Major planned competition is the SH2F SDLM. A limited basis refers to the size and dollar value of competition programs as well as the types of workload. Planned competitions average sixty million dollars compared to the F-14 and P-3 aircraft valued at two hundred million dollars each. Additionally, some aircraft may have modifications or upgradings competed while retaining, in-house, the basic airframe maintenance.

COST REDUCTION GOALS

Mr. Hutto: On page 3 of your prepared statement, you indicate that the Depot Corporation exceeded its cost reduction goals for FY 1987 and FY 1988. This seems to support GAO's finding that naval aviation depot cumulative financial gains amounted to $590.3 million between FY 1985 and 1988. Does this mean that we could take advantage of these savings and direct a refund from the Naval Industrial Fund to offset a cut in the customer accounts in FY 1990?

Admiral DeMayo: No. Even though the NAVAVNDEPOTs achieved financial gains between FY 1985 and FY 1988, this does not, in any way, imply that these savings can be administered via a direct refund from the Naval Industrial Fund to offset a cut in the customer accounts in FY 1990. These cost reductions, including over-target reductions, have been removed, up front, out of the base (cost for operations) upon which rates are established and stabilized. The stabilized rate that the customer pays already reflects the effect of these cost reductions.

ASSET CAPITALIZATION PROGRAM

Mr. Hutto: On pages 4 and 5 of your prepared statement, you discuss the asset capitalization program at the naval aviation depots and the efforts by the Navy to improve the management of the program in response to GAO criticism.

As you are aware, Congress has cut the Asset Capitalization Program (ACP) pretty heavily over the past two years and there continues to be some concern about the management of the program. Given the continued pressure on the DoD Budget, what would happen if Congress were to cut the ACP?

Admiral DeMayo: The asset capitalization program at the naval aviation depots has been the subject of an intensive and successful improvement program which has corrected the deficiencies noted by GAO. Our improvement program focuses on the development and timely execution of a sound capital investment strategy, comprised of projects which have been reviewed and approved, and is being seen as a model program. Some of our procedures and materials are being adopted by other DoD activities.

The current ACP authority is insufficient to meet current needs to replace worn out, inefficient equipment or to gain capability in new technologies. There will be a steady decline in equipment performance which will reduce the depots' ability to achieve productivity increases. Further reductions will seriously mortgage the future of the depots. ACP is the depots' primary vehicle to acquire capital equipment to meet new technology needs and to modernize operations for greater efficiencies and economies. Further reductions would be shortsighted in view of potential paybacks.

Mr. Hutto: If you had to choose between a cut to the Naval Aviation Depot Maintenance Program and the Asset Capitalization Program, which would you prefer?

Admiral DeMayo: A cut in the naval aviation maintenance program would create more of an unfunded requirement problem, and degrade fleet readiness, because executable workload exists for budgeted funds. Reduced workload would also drive up the rates we must charge our customers, therefore netting our customers even less product for their dollars in the future. A cut in the Asset Capitalization Program, as previously indicated, would seriously erode the depot maintenance support we are able to provide in the future. Therefore, a cut in either program would have costly consequences.

Mr. Hutto: Over the past two years, the debate over the Asset Capitalization Program has revolved around the management of this program by the services. Conspicuously absent in this debate has been any consideration of the potential impact on the future competitiveness of the naval aviation depots vis-a-vis private contractors seeking aviation maintenance workload. Is this a real concern and, if so, how much ACP funding needs to be sustained to make sure that the depots do not end up losing workload by default because they do not have the new technology and facilities to compete with the private sector?

Admiral DeMayo: The Asset Capitalization Program is the means by which the naval aviation depots replace old worn out equipment, implement productivity and quality improvements, execute assigned workloads and prepare for future aviation depot maintenance requirements. Most certainly the depots' ability to be a competitive source of repair, and keep pace with their private sector counterparts, is contingent upon the availability of ACP funds to continually improve industrial processes by taking full advantage of the latest manufacturing and repair technologies.

Mr. Hutto: On page 9 of your prepared statement, you indicate that high performers in private industry and public industrial facilities consistently invest up to five percent of sales annually in replacement of capital equipment. How large is the ACP reflected in the Navy aviation depot maintenance program for FY 1990 and 1991 and when do you think you will attain a five percent investment program?

Admiral Demayo: In my experience, successful industrial enterprises invest at least five percent of annual sales in capital equipment. In the case of the naval aviation depots this would total $70 - $80 million per year. The return on investment in terms of capability and performance would more than offset the cost.

The ACP for the naval aviation depots is currently projected as 2.5 percent of sales annually in FY 90 and FY 91. A five percent investment program could be attained during the next few years.

Mr. Hutto: As you recall, several years ago, Mr. Sisisky sponsored an amendment to bring the ACP program to 5 percent of total industrial fund revenue. Now you have told us that the Navy could not even manage an ACP program that reached 4 percent at that time, how can we have confidence that you could manage a 5 percent program now?

Admiral DeMayo: Through the Naval Industrial Improvement Program the Naval Air Systems Command has developed and implemented a very tightly controlled and disciplined ACP. The naval aviation depots have the policy, guidance, procedures, and training they need to perform the various functions associated with the ACP. They have a capital planning process, and ACP projects are reviewed at the headquarters level. The program develops a sound capital investment strategy, corporately and at each depot, and the depots are dedicated to the successful execution of each year's ACP authority.

SUPPORTING OLDER SYSTEMS AND MODERNIZATION PROGRAMS

Mr. Hutto: On page 7 of your prepared statement, you indicate that the naval aviation depots have a two-fold challenge, the need to keep pace with new systems while assuming responsibility to provide support for older systems where private industry is either unable or unwilling to perform. How do you set your priorities to address these competing requirements and how do we avoid having naval aviation depots relegated to the maintenance of older systems by default?

Admiral DeMayo: The naval aviation depots are postured to balance the most cost effective and efficient peacetime workload while maintaining maximum mobilization readiness. In addition to new weapons systems and repair technologies, we also must retain the capability to maintain older weapons systems where commercial interest does not exist. Although the older systems must be maintained until replaced, there is no mission conflict between supporting new weapons systems and providing cost effective maintenance of older weapons systems.

The naval aviation depots pursue state-of-the-art repair processes to ensure mission capability and improved productivity. This is done by establishing lead technology sites and posturing toward technology base objectives. Depot maintenance competition is an important part of our strategy to keep pace with industry. In addition to encouraging efficient depot operations, public/private competition provides the naval aviation depots the opportunity to secure additional new technical capabilities and workload.

ENVIRONMENTAL COMPLIANCE

Mr. Hutto: On page 8 of your prepared statement, you discuss the challenge faced by naval aviation depots to comply with increasingly stringent environmental requirements. You indicate that compliance will ultimately involve time and capital investment. How much time do you think you will need to bring the depots into compliance and how much funding are you projecting for these efforts in the current five year program?

Admiral DeMayo: In today's environment of constantly changing environmental regulations it is difficult to say when we will be in compliance as if it were a position to attain and then cease effort. Our goal is one of continual compliance with the existing regulations and with future regulations.

We have established a policy of full compliance with environmental regulations. With respect to hazardous waste minimization, we have an interim goal of 50% reduction by 1992 and a long term goal of 100% reduction given developing technology and its associated cost. We know where our problems lie and are addressing them with the resources available to us. However we will need the resources to comply as the environmental picture develops.

Given the flexible nature of the compliance "target," a cost cannot be easily defined, but the components of that cost may be. The components are an accelerated research and development program, an aggressive hazardous waste minimization program, and a program to maintain administrative compliance with the regulations.

We have identified over $25 million for compliance costs for new environmental regulations through the A-106 pollution control report program in FY90 through FY94. Our environmental program recurring operational costs in the same period will be over $15 million per year. The operational costs are being identified by the depots within their budgets. The costs for research and development are being identified through the research and development program."

The final report which reviews all of the environmental issues at the naval aviation depots will be provided by May 21, 1989.

Mr. Hutto: As I am sure it is becoming painfully aware to you and the naval aviation depots, environmental compliance is generally delegated to the states or EPA regions and most of the statutes do not consider the cost or mission impact on the depots. Under the circumstances, how do you develop funding requirements for environmental compliance and how do you address this level of uncertainty?

Admiral DeMayo: We are beginning to develop methods to identify funding requirements to address the cost impact of environmental compliance. In some instances we have found ourselves in the position of being without compliance funds when a new environmental regulation was implemented. We are working to avoid this situation by having our personnel at the naval aviation depots develop and maintain contact with the state and local regulatory agencies to ensure that we have full warning of pending environmental regulations as well as an opportunity to comment on the proposed regulations.

For those regulations which are known we identify our costs through the Office of Management and Budget Circular A-106 program. We submit a pollution control report through the chain of command so that the cost is identified in a Navy budget and is identified to Congress through the A-106 process. That process is for compliance with existing regulations.

The operational cost of the environmental programs at the Naval Aviation Depots is identified in the NIF budget. Those costs are for personnel, material, required training, and waste disposal.

The cost to cover proposed legislation or forecasted environmental regulations is difficult to identify. Since a change to material or process may require upwards of ten years to develop, either in conjunction with private industry or on our own, it is difficult to fully identify the resources required. Presently , we are developing long range research and development goals to address the forecasted development of environmental regulations, yet funding those goals is becoming increasingly difficult as environmental funds are most often set aside for compliance with existing regulations.

Mr. Hutto: What suggestions do you have that would improve your ability to provide adequate funding to meet environmental compliance requirements?

Admiral DeMayo: There are several initiatives which need to be addressed in establishing adequate funding to meet environmental compliance requirements. First we need better information regarding the needs. We have been surprised too often in the past. Perhaps a clearing house would help in keeping federal acquisition activities apprised of changing state and local regulations.

It is nearly impossible to successfully enter the military construction process in time to have a project addressing a compliance order funded and constructed within the time frame set by the regulatory authority. An environmental compliance "variable location military construction" item would help alleviate this problem by establishing an account to be used for military construction projects required under a compliance order.

The Defense Environmental Restoration Account is used primarily in the restoration of hazardous waste disposal sites. However, in the past, Congress and DOD have allowed the services to use a portion of the Defense Environmental Restoration Account for studies and equipment related to the reduction of hazardous waste. This funding is vital as seed money for the new hazardous waste minimization initiatives, and enhances the "in-house" hazardous waste minimization efforts at the naval aviation depots and throughout the services.

The asset capitalization program may be used to a limited extent for equipment purchases and minor construction for environmental projects. However, much of the equipment that will have a major impact on our generation of hazardous waste requires research and development which is beyond the scope of the asset capitalization program.

ENVIRONMENTAL COMPLIANCE - HAZARDOUS WASTE MINIMIZATION

Mr. Hutto: One of the most important environmental issues involving naval aviation depots is hazardous waste minimization. With hazardous waste disposal costs rapidly escalating and environmental regulations becoming more stringent, hazardous waste minimization has become imperative. What are the naval aviation depots doing to minimize their generation of hazardous waste and how much confidence can we have that these reductions are real?

Admiral DeMayo: Each depot has been developing projects in conjunction with their processes to improve productivity and reduce the generation of hazardous waste. Using Naval Aviation Depot Alameda as an example of what is being done, it has 11 projects in place as summarized here:

1. Plural component mixing of paint.
2. Electrostatic spray painting.
3. Solvent recovery stills for paint solvent.
4. Oil Recycling Still.
5. Machining Oil Recycling Still.
6. Plastic Media Blasting (PMB) Aircraft Components.
7. Solvent Spray Booths replacement with quadrex totally enclosed solvent recycling cleaning booths.
8. Graymill cleaning booths for detergent/water cleaning recycling booths to replace Varsol Solvent.
9. Wet lay up for composite repair with pre-impregnated fiberglass sheets, films, and adhesives reduce solvents and low boiling resin wastes.
10. Limited hazardous material inventory for "shelf life" control.
11. Rain erosion paint (leading edge protection) waste minimization.

Corporately we are developing a data base of information on productivity and environmental enhancement projects that each of the naval aviation depots has developed or is developing. This data base will be used to transfer successes from one depot to another as well as address problems that one depot may be having for which another may have a solution.

We are confident that the reductions are real. Process changes may not result in an immediately measurable change in hazardous waste generation. However, the process engineering and environmental engineering offices at the depots have expressed confidence that the changes are resulting in a reduction in the generation of hazardous waste.

We are developing a research and development program to investigate new maintenance processes. Some of the processes that have been successfully investigated in the past are hard chrome plating, ion vapor deposition, and electrostatic spray painting. Phase II of the compliance study will enhance our action in this area.

Mr. Hutto: Recently, GAO issued a report that is generally critical of DOD hazardous waste minimization programs because of problems with the measurement of baseline hazardous waste generation and the inability of DOD to identify the alternative reasons for a reduction in hazardous waste, such as declining workload. In terms of the hazardous waste minimization programs at the naval aviation depots how would you respond to this GAO criticism?

Admiral DeMayo: We have, over the last several years, been developing a strong hazardous waste generation baseline using the Navy's hazardous waste annual report. Our activities are continuously upgrading the data and improving the quality of the report as they refine their hazardous waste tracking methods. It is imperative that we have the best baseline possible in order to properly track our hazardous waste minimization program.

GAO itemized several specific problems: tracking hazardous waste back to actual generators, variations in the numbers of generators reporting on the Navy's hazardous waste annual report, reporting waste in improper categories, and submissions in combination with other installations. We are correcting these problems by ensuring that the generating shop and process which generate the hazardous waste are included in the Navy's hazardous waste annual report. Also, the naval aviation depots have continued to report, using the hazardous waste annual report, thereby establishing a baseline. Hazardous waste categories are confirmed by process and generating shop.

We recognize the problem of correlation of hazardous waste generation to changes in the amount of work done. We have reviewed methods of correlation, but have had no success in determining a particular aspect for correlation of waste generated to amount of work done. Often, the level of effort to reduce hazardous waste generation shadows any fluctuation in workload.

GROWTH IN ARMY INVENTORIES

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Thursday, March 23, 1989.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2216, Rayburn House Office Building, Washington, DC., Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. **Hutto**. The subcommittee will come to order.

This morning, the subcommittee will continue its review of DOD inventory systems. The Readiness Subcommittee began investigating inventory systems in the early eighties when we uncovered problems at Navy Supply Centers. Since then, the subcommittee has extended its investigation, and periodically holds hearings on the different systems within the Department.

Today, we will be discussing the Army's wholesale and retail inventory systems. As you can imagine, the Army's inventory is large and the system used to manage it is complex. Total inventory is valued in the billions of dollars. There are hundreds of Army supply activities and thousands of Army employees devoted to running these activities.

The General Accounting Office currently has four assignments underway that look at the various aspects of the Army systems for the past year. We have asked GAO to share some of their insights with us.

At this time, I would like to recognize Mr. Machtley, who will present Mr. Kasich's statement. Mr. Kasich is the ranking Minority Member on the subcommittee.

Mr. Machtley.

STATEMENT OF RONALD K. MACHTLEY, A REPRESENTATIVE FROM RHODE ISLAND

Mr. **Machtley**. Thank you, Mr. Chairman.

I would like to thank the Chairman for his remarks, and I want to take this opportunity to welcome our witness from the Army, Major General Murray, and welcome back Mr. Davis from the GAO.

Today's hearing is about the growth of inventory in the Army's supply system. While this may seem to be a technical subject, a properly operating supply system is crucial to our mobilization capability.

If it is true that the Army's supply system is burdened by many items for which there is no known requirement, and there are many other excesses clogging the inventory, then we need to correct the problem.

I have also been told that there are potential problems with the structure of the supply system, which consists of two essentially separate and independent supply systems: the wholesale and the retail. The absence of coordination between the two could mean the loss of control over the system as a whole.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

I would like to thank Chairman Hutto for his remarks, and I want to take this opportunity to welcome our witness from the Army, Major General Murray, and to welcome back Mr. Davis from the GAO.

Today's hearing is about the growth of inventory in the Army's supply system. While this may seem to be a technical subject, a properly operating supply system is crucial to our mobilization capability. If it is true that the Army's supply system is burdened by many items for which there is no known requirement, and there are many other excesses clogging the inventory, then we need to correct the problem.

I have also been told that there are potential problems with the structure of the supply system, which consists of two essentially separate and independent supply systems: the wholesale and the retail. The absence of coordination between the two could mean a loss of control over the system as a whole.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Machtley.

Our first witness today is Mr. Richard Davis, the Director of Army Issues for the General Accounting Office. He is accompanied by two of his Assistant Directors, Bob Lane and Ken Knouse.

We welcome you, gentlemen, it is good to see you again.

I want to take this opportunity to publicly thank you and your associates in the Army Group for the outstanding work you have done for the committee this year. Your work has been everything we could ask for from GAO. It has been factual, objective and timely.

We often wish your evaluations reported more good news, but you have to call them the way you see them, and the problems in the Department are large and complex.

I want you to know that we understand the long hours you all have put in on your evaluations and we here in Congress appreciate your efforts. Congress depends heavily on you and GAO to give us independent, objective evaluations of what is really going on in DOD.

Your work this year has been outstanding, and I wanted to take this moment to let you know that we appreciate it and look forward to your advice and counsel in the mark-up this year, and to working with you in the future.

Before we hear your testimony, Mr. Davis, I think it would be worthwhile if we spent a few minutes to explain the wholesale and retail inventory system that we will be discussing.

It might also be helpful if you would define some of the inventory terms that we will be hearing today, like reparable versus consumable, or reparable versus consumable items, end versus secondary items, and applicable versus inapplicable items.

You may proceed.

STATEMENT OF RICHARD A. DAVIS, ASSOCIATE DIRECTOR, ARMY GROUP, GENERAL ACCOUNTING OFFICE

Mr. DAVIS. Thank you, Mr. Chairman.

First, I would like to thank you for those kind words about GAO and the work that we have done.

I have given the committee a chart which we think accurately describes the Army system in very general terms, and maybe I can just take a few minutes to explain it.

Mr. HUTTO. If you would, yes.

Mr. DAVIS. Above the wavy line is basically what is referred to as the wholesale system. The key element of the wholesale system is the inventory control point or what the Army generally refers to as the buying commands. The buying commands are responsible for managing the inventory within the Army. They establish the requirements and they determine when assets should be bought, maintenance requirements, and what overhaul programs are needed.

The items that they buy are stored in the supply depots that are located around the United States. When units have need for certain items, they submit requisitions to the inventory control points and the inventory control points will prepare a material release order which is really a direction to the depot to release the item or items to the user.

When those items are released to the user, whoever they may be, to the corps level, the director of logistics, direct support units, etc. the item is no longer visible to the inventory control point.

In other words, visibility of assets on the inventory control points' records is limited to what is in the depots at the wholesale level.

Issues issued from the depot to the installation level, what the Army refers to as the retail level, are received by the director of logistics (DOL) which basically takes care of corps level assets or direct support units (DSU) which take care of division level assets. There are billions of dollars of assets that are located at these installations around the country and overseas which are not visible to the inventory control points, and, in fact, these assets are not visible between locations in the field.

In other words, units over in Europe, have no idea what is available, at the units in United States, whether it be Fort Hood or Fort Stewart or wherever.

That, in a very general way, is a description of the differences between the Army's wholesale supply system and the retail supply system.

Mr. HUTTO. OK. Mr. Davis, how many of the supply depots do you have?

Mr. DAVIS. There must be about a dozen or so. Twelve to fifteen of them, I think.

Mr. HUTTO. Are they regional in character? Is that——

Mr. DAVIS. Right. There are three major ones. One on the East Coast, New Cumberland; one on the West Coast, Sharpe Army Depot; and one in Texas, Red River; and they are the ones that maintain most of the supplies.

In addition, there are other depots around that do maintenance functions. For example, there is one in Corpus Christi, TX, that has a primary mission to overhaul Army aviation assets. The Army also has one at Anniston, AL which has overhaul responsibility for the Army's tanks. They are all spread throughout the United States.

Mr. HUTTO. Do any members have any questions about the chart before we go on?

[No response.]

Mr. HUTTO. OK. Well, then, you may proceed with your testimony, Mr. Davis.

Mr. DAVIS. You had earlier asked me, Mr. Chairman, to define some terms for you. Do you still want me to do that?

Mr. HUTTO. Yes, it might be well if you would.

Mr. DAVIS. You asked me to describe consumables versus reparable items.

Consumable items are basically those type of items which, when you use it, you dispose of it and you do not repair it. Things like tires, POL, etc. Reparable items are exactly what the name implies. Those are assets that once they break down, they can be fixed.

Then, there are end items versus secondary items. End items are things like tanks, trucks, helicopters, Bradley fighting vehicles and so forth. Secondary items are generally the sub-assemblies that go in to make up those end items, piece parts, assemblies, engines, transmissions, differentials and things of that nature.

Another set of items you asked me to describe are applicable and inapplicable. Applicable items are those items that the Army stratifies against what they refer to as their AFAO, which is the approved force acquisition objective.

In other words, it is the quantity that the Army says is the approved requirement for any particular item, and then they stratify all their assets against those requirements. It could be operating stocks, war reserve stocks, lead time assets, production lead time assets, and so forth.

Inapplicable is a term that the Army uses to describe the quantity of assets over and above their AFAO. Items in the inapplicable category would include contingency retentions, economic retentions, and potential excess items. The Army does not buy items to fill those levels, but as things happen in the supply system such as an item may be phased out or demands are reduced, assets are stratified against those levels.

Basically, these are levels or ceilings that the Army has established for which they can protect assets, but they do not buy to fill those levels or ceilings.

Mr. HUTTO. All right, sir. We will be happy to admit your statement for the record.

Mr. BILBRAY. Mr. Chairman, I am a little confused on that last answer. Would you be a little more simplistic than that?

I did not quite understand what the last item was.

Mr. DAVIS. OK. It is called inapplicable.

Mr. BILBRAY. All right. I understand what it is called.

Mr. DAVIS. This is a term which describes a set of categories against which the Army stratifies assets.

For example, if their approved force acquisition objective is a hundred, and they have assets on hand and due in over a hundred, let us say 120, then those extra twenty assets are above the AFAO. The extra assets could be put in to one of the retention levels.

For example, the Army——

Mr. Bilbray. In other words, is it simply surplus of any particular item?

Mr. Davis. There is no forecasted demand for it at this particular time, but the Army may decide, for a number of reasons, that it would be better to keep the item than to dispose of it at this particular time.

Mr. Bilbray. I see. An M-1 carbine is left over that you were not using in ROTC or something like that, and you have 10,000 of those, that would be in that category, is that correct?

Mr. Davis. It could be.

Mr. Bilbray. All right. I understand.

Mr. Hutto. All right, sir. We would like for you to summarize, if you would, and we would be happy to put your entire statement into the record.

Mr. Davis. Thank you, sir.

I appreciate the opportunity to be here today to discuss the needed improvements in the Army's inventory management system. This subject is likely to take on added importance in the years ahead as the services are faced with decreased budgets requiring that they do more with less.

The Army Supply System is divided into two major elements, basically the way we just described on that chart. The problem that arises is that as a result of a lack of linkage between the various supply levels there are the accumulation of excess items and units, shortages of same items at other units, and procurement of the same items at the NICPs, which are the buying commands.

This lack of communication can affect readiness. Additionally, inventory for which they are no current demands accumulates at the wholesale level depots. Our recently completed and on-going work has repeatedly demonstrated these conditions.

In 1987, we reported that excesses at the DOL level had increased from $85 million in 1984 to a $155 million in 1986, an increase of about 83 percent. Our analysis of these excesses at selected installations showed that many of them were not being reported to the NICPs for redistribution to other installations where there were corresponding shortages.

At the same time, the NICPs either had procured or were in the process of procuring these same items to fill shortages at the installation level.

In one of our on-going assignments, which focuses on excesses at the DSU level, we are finding that the same types of problems are occurring at this level but at a greater magnitude. Preliminary information based on our work at one installation showed that the DSUs for two collocated divisions had excess items valued at $40 million.

Excess items at one division's DSU could have been redistributed to fill shortages at the other divisions DSUs. However, because there is no linkage between the two divisions' supply systems, there was no systematic means to redistribute the excess items from one division to the other.

Specifically, of the thirty-seven excess items we selected, we determined that in thirteen cases there was a need for the same items in the other division. In one case, the division had an excess quantity of six of an item on hand, while the other division was awaiting receipt of fourteen of the same item from the NICP.

If redistribution had been practiced, the six excess items could have been transferred to the other division and the due-in quantity could have been reduced by the same number.

Also, we determined that of sixty-six excess items we selected on a judgmental basis at two divisions, forty-six of the items valued at $4.5 million were being procured by the NICP. When the NICP is not aware of the excesses that can be redistributed to the other locations having the need for the item, readiness can suffer.

On the basis of our sample of excess items, we determined that eleven of the forty-six items being procured by the NICP had high priority requisitions outstanding at retail level installations. This is an indication that equipment was not mission capable because it lacked necessary parts.

To illustrate, two M–1 tanks in Germany were not mission capable because they lacked a part, even though that part was excess to the needs of the division at Fort Hood where we were conducting our review.

There is no single cause which results in excess items and items for which there are no current demand. Likewise, there is no single solution. The problem has many causes which collectively generate vast amounts of items in these categories.

Past Army studies have identified a host of problems throughout the supply system. Some of the more frequently cited problems included provisioning of items based on over-estimation of part failure rates; configuration changes which result in already purchased items becoming excess while outdated items continue to be purchased; and requisition errors that result in the release of overstated quantities of materials that are later returned to the supply system.

Another cause of excess inventory is related to the Army's policy of buying items before they are needed. These purchases are referred to as "premature buys." Our work at two NICPs showed that the Army had purchased about $93 million of spare repair parts before they were needed.

Another principal cause of excesses, particularly at the installation level, has to do with the reluctance of some field commanders to turn in excess items once they have them in their possession.

They seem to believe that they might need the items some day. While it is not possible to quantify the effect that this attitude has had on the excess problem, it was readily apparent through our discussions with command officials at the installations we visited.

For example, the division officials at one location told us that their reason for retaining excess items was that the unit had to be ready to deploy at a moment's notice and they might need the items. The same division went so far as to issue policy guidance that authorized its units to retain a 1-year stock of items, even though these items would not qualify to be stocked based on demand history. This practice is contrary to department policy, which prohibits units from retaining stock not otherwise authorized.

The Army is well aware of these problems and has on-going or planned initiatives to address them. The Army and we recognize that it is not possible to completely eliminate the problem of excess and no demand items. Therefore, for these type of items, the objectives should be to use them in a most beneficial manner.

However, to the extent that the causes of excess and no demand items can be eliminated, the supply system will become more efficient and effective and finite resources can be conserved and devoted to other priorities.

One of the Army's on-going initiatives is to develop a system that will provide corps level visibility of inventory items maintained by units in the corps. This system will allow the corps to identify excess items in their units and redistribute them among other division units. The system referred to as the standard Army retail supply system (SARSS) is expected to be fully implemented in the mid-1990s.

We support the Army's efforts to identify excesses at the retail and wholesale supply levels and to eliminate the causes of excesses. However, the full benefits of the Army's actions will not be realized until it develops a supply system that enables the managers at the wholesale level to have total visibility of the inventory down to and including the direct support level.

The technology for such a system has been proven by the Air Force which has worldwide visibility of reparable items down to the base level. It is equally important that managers of the wholesale system also have the authority to redistribute excesses from locations where they exist to locations where they are needed.

Achieving these objectives will enhance the responsiveness of the supply system, improve operational readiness and reduce costs. Giving visibility and redistribution authority to managers at the wholesale level is not intended to imply that the wholesale level managers would arbitrarily redistribute excesses. Wholesale level managers should redistribute items only after consulting with the possessing command because there may be valid reasons why the command needs to retain excesses over and above its authorized level.

Also, with increased visibility, wholesale level managers would be in a position to make more informed procurement decisions because they would know the asset positions of items at the installation levels. At present, these assets are not considered in procurement decisions because managers have no assurance that assets can be redistributed.

Mr. Chairman, that completes my statement, and I would be pleased to respond to any questions you would have.

PREPARED STATEMENT OF RICHARD DAVIS

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss needed improvements to the Army's inventory management system. This subject is likely to take on added importance in the years ahead as the services are faced with decreased budgets requiring that they do more with less.

The Army's inventory management system is large and complex, encompassing millions of items valued at several billion dollars, hundreds of supply activities, and thousands of people. Over the past several years, the value of the inventories has grown at a significant rate. At the same time, that portion of the inventory for which there are no current demands has also grown. This matter is further complicated by the fact that there is no single supply system. Instead, there are several systems that are interrelated but often operate quite independently of each other.

The focus of my testimony today will be to highlight inventory management issues that we believe need to be resolved so that the Army can more effectively carry out its inventory management responsibilities. More specifically, I will briefly discuss

-- the structure of the Army's supply system and the inventory growth that has occurred over the past several years,

-- the problems that arise as a result of having a supply system made up of segments that operate independently,

-- the causes and extent of these problems, and

-- the initiatives that the Army has undertaken and planned to address them.

Finally, I will summarize what we believe needs to be done to establish a more effective and efficient supply system.

DESCRIPTION OF THE ARMY'S SUPPLY SYSTEM

The Army's supply system is divided into two major levels--wholesale and retail. The wholesale level consists of six National Inventory Control Points (NICP), which are responsible for computing wholesale level requirements; buying the items; storing the items at depots; and issuing the items to Army posts, camps, and stations. The inventory that the wholesale system is responsible for has increased from about $6.1 billion in fiscal year 1983 to over $12.0 billion in fiscal year 1988. These figures only include secondary spare and repair parts[1] bought with the Army's procurement appropriations. They do not include items funded through the Army stock fund.

The retail supply level, often referred to as the "installation supply level," is responsible for computing requirements, requisitioning items from the wholesale system, storing the items, and issuing the items to user units. The value of the retail level inventory is difficult to determine because no central records are kept of the inventories at the hundreds of installations. However, the value of the retail level inventory is estimated to be several billions of dollars.

When an item is issued from the wholesale level depot to an installation, it enters the retail level system. At that time, ownership, accountability, and control over the item pass from the wholesale level inventory manager to the retail level inventory manager, and the wholesale level manager generally loses visibility of it. As a result, wholesale level managers are not in a position to identify excesses at the retail level and redistribute items to locations where a need exists.

The matter is further complicated by the fact that, even within the retail level, visibility does not extend from one level to another.

---

[1] Secondary items consist of piece parts, assemblies, and subassemblies as opposed to end items such as tanks, trucks, etc. Examples of secondary items include engines, transmissions, differentials, etc.

For example, items at the direct support units (DSU), which are division-level units, are not visible to the Director of Logistics (DOL) units, which are corps-level units and vice versa. The only linkage that exists between the two levels in the retail system is the link established when a DSU declares an item excess and physically moves it to the DOL level. In addition, with a couple of exceptions, the only linkage that exists between the DOL level and the wholesale system is the link established when the DOL declares an item excess and reports it to the wholesale level inventory manager. However, item managers at all retail levels are generally reluctant to report items as excess.

PROBLEMS THAT ARISE IN NOT HAVING A SINGLE SUPPLY SYSTEM

The problems that arise as a result of the lack of linkage among various supply levels are revealed in the accumulation of excess items at units; shortages of the same items at other units; and procurement of the same items at the NICPs. This lack of communication can affect readiness. Additionally, inventory for which there are no current demands accumulates at the wholesale level depots.[2] Our recently completed and ongoing work has repeatedly demonstrated these conditions:

-- In 1987, we reported that excesses at the DOL level had increased from $85 million in 1984 to $155 million in 1986, an increase of about 83 percent. Our analysis of these excesses at selected installations showed that many of them were not being reported to the NICPs for redistribution to other installations where there were corresponding shortages. At the same time, the NICPs either had procured or were in the process of procuring these same items to fill shortages at the installation level.

---

[2] Includes items being retained for contingency retention, economic retention, numeric retention, and potential excess. By definition, these are items for which there is no forecasted demand.

-- In one of our ongoing assignments, which focuses on excesses at the DSU level, we are finding that the same types of problems are occurring at this level but at a greater magnitude. Preliminary information, based on our work at one installation, showed that the DSUs for two collocated divisions had excess items valued at about $40 million.[3] Excess items at one division's DSU could have been redistributed to fill shortages at the other division's DSUs. However, because there is no linkage between the two divisions' supply systems, there was no systematic means to redistribute the excess items from one division to the other.

Specifically, of the 37 excess items we selected, we determined that in 13 cases, there was a need for the same items in the other division. In one case, a division had an excess quantity of 6 of an item on-hand (with a unit price of $89,215), while the other division was awaiting receipt of 14 of the same item from the NICP. If redistribution had been practiced, the six excess items could have been transferred to the other division, and the due-in quantity could have been reduced by the same number.

Also, we determined that, of 66 excess items we selected on a judgmental basis at the two divisions, 46 of the items, valued at $4.5 million, were being procured by the NICP. When the NICP is not aware of excesses that can be redistributed to other locations having a need for the items, readiness can suffer. On the basis of our sample of excess items, we determined that 11 of the 46 items being procured by the NICP had been assigned high priority by retail level installations. This is an indication that equipment was not mission-capable because it lacked necessary parts. To illustrate, two M-1 tanks in Germany were not mission-capable because they lacked a part (with a unit price $1,169) even though that part was considered excess to the needs of the division where we were conducting our review.

---

[3] Only includes items where the amount of the excess was at least twice the requirements' objective. In addition, there were about $11 million of items where the on-hand quantity was greater than the requirements' objectives but less than two times the requirements' objective.

-- In another of our ongoing assignments, which focuses on the wholesale level, we are finding that a large percentage of the inventory is comprised of items for which there are no forecasted demands. Between fiscal years 1983 and 1988, the inventory value of Army procurement appropriation items maintained by the six NICPs grew from $6.1 billion to over $12.0 billion. During the same period, Army reports indicated that the inventory value of items for which there were no forecasted demands increased from $.98 billion to $2.6 billion.

CAUSES OF EXCESS AND NO DEMAND ITEMS

There is no single cause which results in excess items and items for which there are no current demand. Likewise, there is no single solution. The problem has many causes, which collectively generate vast amounts of items in these categories. Past Army studies have identified a host of problems throughout the supply system. Some of the more frequently cited problems include

-- the provisioning of items based on overestimation of part failure rates;

-- configuration changes that result in already purchased items becoming excess, while outdated items continue to be purchased;

-- requisition errors that result in the release of overstated quantities of material that are later returned to the supply system;

-- the retention of items intended for repair programs that are reduced or canceled;

-- turbulence in the authorized stock lists caused by changes in the criteria for adding and retaining stock and by manual intervention that requires units to stock items not based on demand; and

-- field level reparable items not being repaired in the field. Instead, these items are being processed as excess while new ones are being requisitioned through the supply system.

We have identified many of these types of problems during completed and ongoing assignments. We have also found several other problems that, we believe, contribute to the problem of excess items and items for which there are no current demand.

In 1984, the Department of Defense instituted a moratorium on the disposal of excess items. This action was taken in response to the finding that usable assets were being disposed of while new items were being procured. The Army's response to the moratorium was to adopt a policy that prohibited the disposal of any item that related to a system still in the active inventory. One method used to ensure that these types of items were not disposed of was to expand its use of the Automatic Return Item (ARI) system. The ARI system was designed to expedite the return of critically needed items from field locations to depots for repair and then to the wholesale supply system. Many field units took this opportunity to "clean house" by returning items to the depot level that were intended to be repaired at the retail level and returned to the retail level supply system. In 1984, just prior to the moratorium, the ARI list contained about 4,500 items. By the end of 1985, the list had grown to over 56,000 items. We estimate that about $1.3 billion of these types of items were returned to the wholesale system. Because these items were not depot level reparable items, the wholesale system did not include a repair program for them. Consequently, the items accumulated at the depots in an unserviceable condition.

Another cause of excess inventory is related to the Army's policy of buying items before they are needed. These purchases are referred to as "premature buys." Our work at two NICPs showed that the Army had purchased about $93 million of spare and repair parts before they were needed. The Army's requirement system provides that a procurement will be initiated when the on-hand quantity reaches the reorder point. However, in some cases, the Army had initiated procurement action as early as 16 months before the asset position reached the reorder point. Buying items before they are needed is risky. If demand for the items decreases or if modifications to the items occur, the chances are increased that the items will exceed need. In fact, this is what often happened, and many of these items are now in excess. The Army, in August 1988, advised us that it has discontinued the practice of buying items ahead of time.

Another principal cause of excesses, particularly at the installation level, has to do with the reluctance of some field commanders to turn in excess items once they have them in their possession. They seem to believe that they might need the items someday. While it is not possible to quantify the effect of this attitude on the excess problem, it was readily apparent during our discussions with command officials at the installations we visited. For example, division officials at one location told us that their reason for retaining excess items was that the unit had to be ready to deploy at a moment's notice and they might need the items. The same division went so far as to issue policy guidance that authorized its units to retain a 1-year stock of items even though these items would not qualify to be stocked based on demand history. This practice is contrary to Army policy, which prohibits units from retaining stock not otherwise authorized.

At other locations, the same attitude was prevalent but expressed in different terms. For example, command officials told us that their units had paid for the items and that if they turned them in for redistribution, they might not receive credit, and the unit might have to repurchase the same items at a later date.

In contrast, other commanders have taken the position that excess items are "excess baggage" that will be hindrances if the unit has to deploy.

What is evident in many situations is that installation officials have a great deal of latitude in determining whether to declare an item excess and turn it in for redistribution. This latitude is made possible because managers of the wholesale system do not have visibility and control over items at the retail level. If they did, they would know when an item was not needed and could redistribute it to other locations where it was needed. In the absence of such visibility and control, the wholesale system is largely at the mercy of the possessing command in obtaining the excess items for redistribution.

ARMY INITIATIVES TO ADDRESS THE PROBLEMS

The Army is well aware of these problems and has ongoing or planned initiatives to address many of them. The Army and we recognize that it is not possible to completely eliminate the problem of excess and no demand items. Therefore, for these type items, the objective should be to use them in the most beneficial manner. However, to the extent that the causes of excess and no demand items can be eliminated, the supply system will become more efficient and effective, and finite resources can be conserved and devoted to other priorities.

One of the Army's ongoing initiatives is to develop a system that will provide corps-level visibility of inventory items maintained by units in the corps. This system will allow the corps to identify excess items in their units and redistribute them among other division units. The system, referred to as the "Standard Army Retail Supply System" (SARSS), is expected to be fully implemented in the mid-1990s. In the interim, the Army is pilot-testing another asset visibility system referred to as "The Objective Supply System" (TOSS), which includes some features similar to those of SARSS. Another asset visibility system, which has been developed by V Corps in Europe, is the "Corps Asset Visibility" (CAV) system. It also provides corps-level visibility of inventory in the corps' divisions.

While these systems constitute improvements over what previously existed, they do have limitations. For example, asset visibility in all of these systems is restricted to the corps level and does not provide redistribution capability among corps. Also, the systems do not provide total asset visibility to the wholesale system. The wholesale system will only have visibility of excesses that the corps decide to declare. And, as previously discussed, field commanders are generally reluctant to declare items excess. Consequently, managers of the wholesale system will not be totally aware of all excesses and will not be able to take these items into consideration in making procurement decisions.

Another initiative the Army has taken to improve its supply system is to use European Redistribution Facilities (ERF). These facilities serve as clearinghouses for excesses identified by units in Europe. When excess items are turned in, they are compared to items that are managed and repaired in the theater. Once this is accomplished, any remaining excess is reported to the NICP for inclusion in their accountability records. In effect, the ERFs are forward-based storage locations for the NICPs. While the ERFs are an effective means to redistribute excesses in Europe, they too have limitations. The major limitation is that the ERFs can only process excesses that the units report and turn in, and as discussed previously, units are often reluctant to declare items excess.

While the objective is to prevent items from becoming excess by taking actions to eliminate the causes of excesses, it must be recognized that some items will become excess regardless of the actions that are taken. The question then becomes: how can the excess items best be used?

The Army has a policy that provides that items for which there is no current requirement should be used, to the maximum extent possible, in carrying out maintenance programs. The intent is to use serviceable assets that are available rather than to repair unserviceable assets.

At five Army NICPs, there was about $60 million of serviceable assets over and above current requirements that could be used in the Army's fiscal year 1989 maintenance programs. Using these assets would reduce Army repair costs about $15 million and allow scarce repair labor hours to be devoted to reducing the Army's backlog of other items needing repair. Depot officials told us that it was cheaper for them to repair the unserviceable components than to purchase them from the supply system. From a depot's perspective, this may be true. However, from an Army-wide perspective, the fact remains that the Army has already invested in the serviceable items, and repairing additional items does not represent a prudent use of scarce resources.

WHAT NEEDS TO BE DONE TO IMPROVE THE SUPPLY SYSTEM

We support the Army's efforts to identify excesses at the retail and wholesale supply levels and to eliminate the causes of excesses. However, the full benefits of the Army's actions will not be realized until it adopts a supply system that enables managers at the wholesale level to have total visibility of the inventory down to and including the direct-support level. The technology for such a system has been proven by the Air Force which has world-wide visibility of reparable items down to the base level.

It is equally important that managers of the wholesale system also have the authority to redistribute excesses from locations where they exist to locations where there is a need. Achieving these objectives will enhance the responsiveness of the supply system, improve operational readiness, and reduce costs.

Giving visibility and redistribution authority to managers at the wholesale level is not intended to imply that the wholesale-level managers would arbitrarily redistribute excesses. Wholesale-level managers should redistribute items only after consulting with the possessing command, because there may be valid reasons that the command needs to retain assets over and above its authorized level. Also, with increased visibility, wholesale-level managers would be in a position to make more informed procurement decisions because they would know the asset positions of items at the installation level. At present, these assets are not considered in procurement decisions, because managers have no assurance that assets can be redistributed.

- - - -

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions.

Mr. Hutto. Thank you, Mr. Davis.

At the beginning of my statement, I mentioned that under our late Chairman Dan Daniel's leadership, this subcommittee, back in the early eighties, found some problems with the Navy supply system and, of course, you related some problems we have with the Army, and I am assuming you also have knowledge of the Air Force system.

Can you just briefly compare the three systems and tell us who is doing a good job and who is not and if we should carry from one service to another their system or what should be done to bring about better efficiency and the saving of money?

Mr. Davis. I am not that versed on the Navy and the Air Force systems.

Mr. Hutto. OK.

Mr. Davis. I do know, however, that the issues we are describing today about the vertical management and improved visibility and control of inventory and assets at the wholesale level in the Army is an issue that both the Air Force and the Navy have addressed.

In fact, they have visibility for large segments of their inventory at the retail level, particularly reparable items, which is a major part of the inventory.

I would just like to point out something. That the issue that we are talking about today is not a new issue. It has been with us for a long time. As an example, back in 1982, we sent a letter to General Keith, who was the commanding general of the Army's Materiel Development and Readiness Command, as it was called in those days. We pointed out that the Air Force and the Navy had implemented vertical management controls over large segments of their inventory, but the Army had done little to implement vertical management, even though DOD for many years had been espousing this. So, this is something that GAO has been emphasizing for a number of years.

In that letter to General Keith, we concluded by saying, "The Army lags far behind the other services in adopting vertical management. It has not embraced the concept as a whole and its primary attempt at vertical management, that is the SIMS-X system, has been replete with problems."

The difference is that the other two services have a better understanding of what is at the retail level in their wholesale system.

Mr. Hutto. OK. You are right. We have been around these problems for a number of years, and you indicated that the Army is working to correct some of these problems.

Could you evaluate the Army management's commitment to correcting the problems being reported and do you and your co-workers, as outside observers, see any real progress being made to improve the overall situation?

Mr. Davis. The Army has a number of initiatives underway to improve the visibility of their assets. Most of these initiatives, however, will not allow the wholesale system to gain visibility of the assets at the retail system.

We have had a number of discussions with the top Army logisticians, General Ross and General Murray, who is going to be testifying later, and we see a commitment on the part of these people to improve the system.

One of the things that we would like to see is the issue of improved vertical inventory management should be reported as a material weakness in the Secretary's Annual Statement of Assurance, as required under the Federal Managers' Financial Integrity Act. Once you identify this as a material weakness that needs to be addressed, you are required to establish timeframes, and milestones for correcting the weakness. These milestones then can be continually monitored and progress is visible to the people here on the Hill.

Mr. HUTTO. Now, one of your major recommendations is for the Army to adopt this supply system. It is our understanding the National Guard units do not use a current Army inventory system.

Is this true and, if so, how do the Guard units train, and what systems will they use if the Guard is mobilized?

Mr. DAVIS. I am not sure what supply system the Guard uses in peace time. My guess is, however, that if the Guard did mobilize, that they would have to use the same supply system that active forces because they would become part of the active force.

Mr. HUTTO. In the total force concept that we are going on, it would appear that they would——

Mr. DAVIS. I would think so.

Mr. HUTTO. Use the same system.

You state that a major impediment to solving some of these problems is the mind set of some field commanders who believe that more inventory is better, and there are no incentives to turn excesses back into the system.

Can you recommend ways to put incentives into the system so that excess stocks can be identified and redistributed?

Mr. DAVIS. Well, right now, there are some incentives, albeit maybe not as much as we would like to see.

For example, on Army stock fund items, that are excess, at one of the Direct Support units, if the unit reports the item and turns it into the corps level, the DOL, they get a percentage credit for turning that item in.

So, in effect, there is an incentive to turn that item in, and then that money can be used for other needs at the Direct Support Unit.

Of course, there are Army procurement items, the PA2 items that are free issue items. The units do not pay for these items so, they would not get any credit for turning them in.

Mr. HUTTO. Yes, sir. Mr. Lane.

Mr. LANE. Yes. I would like to add to that by saying that while a mind set does exist for not reporting items as excess, particularly at the major command and installation level, there are other instances where commanders have emphasized the need to pare down the amount of the stocks that they carry in order to enhance mobility.

I would not want us to leave the impression that all field commanders do not believe in turning in excesses, but a mind set is quite prevalent.

Mr. HUTTO. OK. Mr. Davis, your testimony provides a great example of the readiness implications when inventories are not properly controlled and managed.

Please review for us the assignment where there were tanks in Germany that were not mission capable because they did not have the required spare parts while other divisions in the United States had an excess out of the same parts.

Also summarize what the Army needs to do to prevent these problems.

Mr. Davis. The job began at Fort Hood, TX, where there are two divisions, the 2nd Armored Division and the 1st Cavalry Division.

We looked at the supplies at the two divisions and noted that there was $40 million worth of excess items at both of those divisions. We then wanted to find out if the excesses at one division were needed at the other division, and we found that to be the case.

Then, we wanted to find out whether or not the Army was buying any of these items which were excess at these divisions. We went to the TACOM, which is the Tank-Automotive Command, in Michigan, and found that, in fact, the Army was buying some of the same items that were excesses at the divisions.

In fact, we judgmentally selected sixty-six items that had excesses at divisions. We found that for forty-six of those sixty-six items, the Tank Automotive Command was, in fact, buying the items. In addition, for eleven of the forty-six, there were high priority requisitions outstanding which meant that the units requisitioning the parts had equipment that was probably deadlined; thus impacting their readiness.

As I stated in my statement, there were two tanks in Germany that had need of a part, which was excess at the units at Fort Hood. The part was a pre-clean parts kit (unit price $1,169) for the M-1 turbine engine.

We believe that the remedy for situations such as this is that there needs to be one supply system that has visibility, control, and the authority to redistribute the assets of not only what is in the depots here in the United States, but also at the DOLs and the Direct Support Units in the field.

Mr. Hutto. OK. Mr. Holton, do you have a question?

Mr. Holton. Mr. Davis, your testimony discusses the problem with the automatic return items system and that more than $1 billion in items that were returned to the depot under the program.

Tell us about this system, what problems you uncovered, and what happened to the billion dollars of items that were returned.

Mr. Davis. In 1984, DOD put a moratorium on disposal of items, and the reason they put this moratorium in effect was because they had noted that usable items were being disposed of while at the same time the items were being procured.

The Army's response to that program was that they sent a number of messages to their people giving them instructions on what items should be sent back, returned to the depot, and so forth.

In talking to some of the people involved in this, the instructions in a number of these messages—there was over thirty of them, we understand—was somewhat confusing. It left the interpretation of that guidance up to the people at the installation level and as a result, a number of items were sent back to the depots that the Army did not intend would be returned to the depot.

Mr. Holton. What are examples of that?

Mr. Davis. What are examples of those items?

Mr. **Lane**. Essentially, a large percentage were reparable items coded for repair at below depot level. In other words, the items were intended to be repaired at the installation level and other levels. The items would run the gamut of reparable type items.

Mr. **Hutto**. OK. We have a lot of questions that we want to get to you. Because of our heavy floor schedule, in fact, we have a vote, we are going to submit these to you and ask that you respond as speedily as you possibly can because we need this for the record, if you would provide a response to us.

Mr. **Davis**. We would be happy to.

Mr. **Hutto**. So, we thank you for your testimony, and we are going to stand in recess for just a short while, and then we will continue with General Murray and Mr. Mills.

Thank you very much for being with us, and the subcommittee will briefly, stand in recess, perhaps less than 5 minutes.

[Recess.]

[The following questions were submitted to be answered for the record:]

GAO RESPONSE TO QUESTIONS FOR THE RECORD

Question 1: I am aware that Fort Hood received a lot of attention in your study of excess items at retail locations. How many other installations did you visit? Did you audit a representative sample of bases with regard to size and nature of mission?

Response: In our 1987 review, which focused on excesses at the Director of Logistics level at retail locations, we included 9 Forces Command installations and 5 Training and Doctrine Command locations. These locations varied both in size and mission responsibility.

In our current review, which focuses on excesses at the Direct Support level, we have included 9 Forces Command installations and 4 divisions in Europe. Many of the Forces Command installations are the same ones covered in our 1987 review. All 13 units in the current review are division size units and are either infantry, armored, or armored cavalry units. Therefore, their missions are somewhat different but are also similar in that they deal with combat missions.

Question 2: You mention the DoD moratorium of disposal of excess items which was effected in 1984. Is this still in effect? Does your vision of the solution to the problem include a like moratorium or do you feel that more efficient management of items can occur without it?

Response: The moratorium instituted in 1984 is no longer in effect. We would not envision another moratorium as a means to control excesses. Instead, we believe that the answer to reducing excesses rests with implementation of a single supply system which provides visibility of retail level inventory to the wholesale level and, at the same time, allows the wholesale level to redistribute excesses from location where they exist to locations where the assets are needed. In the absence of such a system, there will always be situations where inventory is excess at one unit and short at another unit.

Question 3: Given the fact that the Army has already implemented new programs which address some of your concerns, do you anticipate that the mechanics of those programs - hardware, software, etc. - will be integrated into the one system concept you propose? Or will your concept bring in a brand new system with other requirements that greatly increases the cost of implementation?

Response: The systems being proposed by the Army are not intended to optimize visibility and redistribution of excesses by the wholesale level. At best, these systems will provide asset visibility at a theater level. Therefore, the situation we found where tanks in Europe were deadlined due to a lack of parts while these same parts are excess at Fort Hood would not be disclosed by the system the Army proposes. The single supply system that we propose would not increase the cost over what is currently planned by the Army. In fact, it would probably cost less because there would be fewer interfaces required. Rather than each division, corps, and theater having a system that screens assets for possible redistribution within its own sphere of responsibility, there would be one link between the retail location and the wholesale system. The wholesale system would then do the screening for possible redistribution.

Question 4: One of your major recommendations is for the Army to adopt a single supply system. It is our understanding that National Guard units do not use the current Army inventory systems. Is this true, and if so, how do the Guard units train and what systems will they use if the Guard is mobilized?

Response: In a peacetime environment, Guard units requisition their supply and repair parts from the U. S. Fiscal and Property Officer (USF&PO) in each state. The USF&PO, in turn, interfaces with the regular Army supply system to meet the units' needs. Upon mobilization, Guard units would interface directly with the Army supply system, since under the Total Force Policy, Guard units would be integrated into and considered part of the active force.

Question 5: What does the Army need to do to reduce or eliminate the problems discussed in your testimony? What can this Committee do to ensure that the Army gets a handle on the excess problem?

Response: As discussed in my statement, the Army needs to establish a single supply system which fully integrates the retail and wholesale supply systems. A single system would enable a single point to have visibility of assets down to and including the retail level. With such visibility, assets could be redistributed from where they are not needed to where they are needed. As it is now, excess items located at the Direct Support level are not visible to the wholesale system. As a result, other units may have a need for the item, but the wholesale system would not be aware that there are items available which could be redistributed to meet that need. This usually ends up with the wholesale system buying the item to fill the shortage even though the shortage could have been filled from available stocks.

QUESTION 6: The Army attributes much of its growth in stocks "with no known requirement" to the combined effects of modernizing its forces and DOD's retention policy. Please explain why these stocks have "no known requirement". Do you agree with the Army's assessment of the importance of these two factors? Do you believe the current retention policy provides a fiscally sound basis for making supply management decisions on retaining stocks?

RESPONSE: Inventory items classified as having "no known requirement" consist of items in contingency retention, economic retention, numeric retention, and potential DOD excess. These inventory levels consist of assets over and above the Approved Force Acquisition Objective (AFAO), and as such, are not stratified against the AFAO. The Army's definition for these items are items for which there are no forecasted demands. GAO agrees that force modernization and DOD's retention policy are primary reasons for the growth of inventory in the "no known requirement" area.

GAO also agrees that there is a need to retain stocks in certain of these categories. The question is how much should the Army retain? We have not assessed the validity of the levels that the Army has established for the various retention levels, and certain of these levels appear to be excessive. For example, at one NICP, the Army has determined that it can retain about $12.5 billion of economic retention stock. This level of retention is in excess of the total value of Army-wide inventory at the wholesale level. GAO plans to do some additional work in the area of retention levels to assess the Army's rationale for the established levels and whether these levels make sense.

QUESTION 7: You state that the inventory at the six national inventory control points doubled from $6 to $12 billion from 1983 to 1988 while the inventory categorized as having "no forecasted demand" increased from $1 billion to $2.6 billion. Can you explain the reasons for this growth and any correlation you can see between the two patterns?

RESPONSE: In my statement, I identified several reasons cited by the Army, and other reasons identified by us, which have contributed to the growth of inventory. These same reasons contributed to the growth of inventory in the retention levels. However, between 1983 and 1988, the rate of growth of stock in the retention and excess categories has been about twice the growth in inventory which have known requirements. For example, whereas AFAO inventory increased about 83 percent, retention and excess items increased 168 percent during the same period.

QUESTION 8: Your testimony estimates that the value of the inventory carried at the installation level could be in the tens of billions of dollars. Is there any way to get a handle on the size of this inventory? Please review for us your findings at the one installation that had $40 million in excess inventory.

RESPONSE: It would be very difficult to identify the value of inventory at the retail levels because there are no central records that track these values at the installation level. The only way to do so would be to obtain the inventory value from each installation.

Our work at the installation (Fort Hood) where we found over $40 million of excess items consisted of comparing the on-hand and due-in stock balances with the authorized stock levels for the two divisions collocated at Fort Hood. We found that excesses on-hand at one division could have been used to fill demands at the other division. In addition, many of the items in an excess position were also being procured by the buying command. I should point out that our work at this location is not finished; therefore, we are not in a position to identify the total magnitude of these problems. As a result of our survey findings, we have expanded our work to other CONUS and overseas locations to determine if the problems at Fort Hood also exist at the other locations.

The above findings are not new. In fact, in a 1987 review, we found many of the same type problems. In that assignment, we found that excesses at some locations could have been redistributed to other locations which had a need for the same items. Also, procurements at the NICP level could have been reduced. Of the $45 million of excess items we identified, procurements at one NICP could have been reduced about $36 million. This whole issue points out what can happen when the wholesale level has no or only limited visibility of stocks at the retail level. Without visibility and redistribution authority, the wholesale level managers are at a disadvantage in trying to make sound procurement decisions.

QUESTION 9 Since you found excess inventories at one installation of about $40 million, would you agree that this is an area where the subcommittee could make substantial reductions to the Army request without effecting readiness levels?

RESPONSE: Yes, I would agree that the Committee should take a hard look at this area in terms of making substantial reductions in the Army's budget request. Our completed and on-going work has convinced me that substantial reductions could be absorbed by the Army without impairing readiness. Furthermore, until the Army takes action to establish an inventory system that enables the wholesale level to have visibility and control over inventory at the retail level, malpositioning of inventory will continue.

While the Army has several initiatives underway to gain visibility, these systems do not extend to the wholesale level. Instead they will provide visibility to the corps and theater levels. However, even with these improved systems, there will not be any way for determining whether items excess in one corps or theater are in a shortage position elsewhere outside that particular corps or theater. Only when the wholesale level manager has visibility of inventory at the retail level will the Army be able to redistribute stock from locations where there are excesses to locations where there are shortages, and at the same time, avoid buying items that are already in an excess position.

QUESTION 10: Using the same installation as above, you also found the national inventory control point buying stocks that could be found in excess quantities at the division level. Please give us some examples of these stocks and your findings concerning this problem.

RESPONSE: On a very limited test basis, we selected 66 items in an excess position at Fort Hood to determine if these same items were being procured by the buying command (TACOM). We found that 46 of the items, with an extended value of $4.5 million, were being bought by TACOM. Furthermore, 11 of the 46 items had high priority requisitions due-out to using units. This indicated that equipment was deadlined due to the lack of these items. In fact, two M-1 tanks, in Germany, were deadlined due to the lack of a $1,169 part which was excess at Fort Hood. As part of our review, we will determine the extent to which spare parts in an excess position in CONUS could have been redistributed to overseas locations to cure deadline situations. Again, this is an illustration of what can happen when the wholesale level does not have overall visibility and redistribution authority of stocks at the retail level.

QUESTION 11: The Army statement disagrees with you concerning the use of serviceable assets in long supply in the maintenance program and, in fact, they believe the Army's long supply position would remain unchanged even if these assets were used. You have seen the Army statement, I would like your comments on the Army position?

RESPONSE: The Army's position that using long supply assets in the depot repair programs would merely be converting serviceable long supply to unserviceable long supply assets is valid. However, the point is that the Army already has a sunk cost in the serviceable assets for which there is no forecasted demand. Therefore, why should the Army incur additional costs to repair something which is not currently needed when serviceable assets are available? Only when the serviceable assets are attrited, should the Army consider repairing the unserviceable assets.

QUESTION 12: GAO reported in 1987 that corps-level logistics units had excess stocks of over $155 million, an 83 percent increase from 1984. Please review this problem and give us your views if this is an area the subcommittee should consider for reductions during our review of this year's budget request?

RESPONSE: The major reasons for the situation found in 1987 are exactly the same as we are finding in our current assignment. That is, the excesses were not visible to the wholesale level, and as a result the excesses could not be redistributed from where they were located to where they were needed. Furthermore, as pointed out in our 1987 report, if the wholesale level manager had visibility of these excesses, and had redistributed them to locations where they were needed, procurements of about $36 million at just one buying command could have been avoided. If this same situation applied to the other five buying commands, and we have no reason to believe that it would not, procurements of several hundred million dollars could have been avoided. Based on our current work, the same situation is occurring, but at a greater magnitude.

QUESTION 13: Some members of the subcommittee were at one Army commodity command last week and were told that the procurement regulations cause a good deal of the inventory problems in the Army. Specifically, if the Army awards a contract to buy a generator, it must recompete the contract for subsequent buys. The potential effect is that on two buys, the Army may wind up with generators from two different companies. One part of the problem is that the Army then has to stock replacement parts for both generators instead of just one standard item. Please give us your comments on this problem and any recommendations you may have to correct it?

RESPONSE: The situation described is the natural outgrowth of the Army's efforts to increase competition, and thus reduce the price it pays for spares. The decision to second source an item has benefits from the standpoint that it increases the mobilization base, increases competition, and reduces the price paid for the item. Second sourcing the item using the original technical data package could result in the service buying the same item manufactured by a different contractor. When the second sourcing is not based on the technical data package, then you are apt to end up with different items that require a separate logistics support package. Therefore, trade-off decisions have to be made which weigh the advantages of increased competition, etc. versus the added cost of establishing another logistics support base.

QUESTION 14: Your statement mentions the various Army systems being developed to provide greater visibility over excess items. Many of these systems appear to duplicate each other. Do you have any observations about this duplication and what the Army is doing to eliminate it?

RESPONSE: The proliferation of locally developed systems to gain visibility over excess items is also a concern that we have. Often, these type systems take on a life of their own and the users become comfortable with them. Then, when an Army standard system is superimposed over the local systems, the users either attempt to modify the standard system or they don't use it. The Army's position is that when the standard system (SARSS) is implemented there will not be a need for the local systems. We will just have to wait and see what develops.

QUESTION 15: Do you believe that the Standard Army Retail Supply System will provide total asset visibility to ensure utilization of excess inventories and, if not, what changes would be necessary to do so?

RESPONSE: The Standard Army system as now designed will not provide visibility to the wholesale level. Consequently, there will not be any Army-wide redistribution capability. We believe that in order to optimize the use of the system, the Army needs to establish linkage to the wholesale system. Without such visibility, the cases we found where excess items at Fort Hood could have been used to repair deadlined tanks in Germany will not be identified.

QUESTION 16: If the Army develops a system for total asset visibility would the European Redistribution Facility still be needed and would there be offsetting savings by developing such a system?

RESPONSE: If and when the Army implements a theater-wide inventory visibility system in Europe, there would not be a need to retain the ERFs. However, doing away with the ERFs will also eliminate the existing linkage to the wholesale system unless the Army changes the design of its planned system to incorporate a linkage to the wholesale system. We do not have data on the costs of operating the ERFs. However, that is part of the information we plan to obtain as we go forward with the review phase of our on-going assignment.

QUESTION 17: The Army states that GAO findings concerning Buy-Ahead practices only pertain to one national inventory control point. Please explain the findings, the magnitude of this practice and the locations where it was found to be prevalent?

RESPONSE: As discussed in my statement, we found that the Army was buying items ahead of when they were needed; sometimes as much as 16 month prior to the time the Army would have reordered based on the projected demands for the item. At one location (TACOM), our analysis of 31 items showed that the Army had initiated unnecessary procurements of about $88 million because they procured the items ahead of when the items should have been ordered. In order to determine if this same practice was being followed at other NICPs, we performed a limited test at MICOM. Our analysis of 10 items showed that buy ahead procurements of about $4.8 million were initiated. Subsequent to our review, the Army, in August 1988, told us that they had discontinued the buy ahead practice.

QUESTION 18: Army policy allows units to retain twice the number of repair parts over its requisition objective, which is 45 days of supply. Please explain this policy and give us your views on why it is a valid objective given the cost to procure and maintain inventories that would be twice their required size?

RESPONSE: Army policy allows retail level activities to retain stock levels for nonreparable parts equal to twice the requirements objective. We do not necessarily agree with this practice. We would prefer that the requirements objective be the baseline for determining when an item is in an excess position. This would make the practice consistent with the Army's policy for reparable items. The particular issue of why the Army has a different policy for nonreparable items is one that we plan to pursue during our on-going review.

GAO RESPONSES TO SUBCOMMITTEE QUESTIONS

QUESTION 1: The Army attributes much of its growth in stocks "with no known requirement" to the combined effects of modernizing its forces and DOD's retention policy. Please explain why these stocks have "no known requirement". Do you agree with the Army's assessment of the importance of these two factors? Do you believe the current retention policy provides a fiscally sound basis for making supply management decisions on retaining stocks?

RESPONSE: Inventory items classified as having "no known requirement" consist of items in contingency retention, economic retention, numeric retention, and potential DOD excess. These inventory levels consist of assets over and above the Approved Force Acquisition Objective (AFAO), and as such, are not stratified against the AFAO. The Army's definition for these items are items for which there are no forecasted demands. GAO agrees that force modernization and DOD's retention policy are primary reasons for the growth of inventory in the "no known requirement" area.

GAO also agrees that there is a need to retain stocks in certain of these categories. The question is how much should the Army retain? We have not assessed the validity of the levels that the Army has established for the various retention levels, and certain of these levels appear to be excessive. For example, at one NICP, the Army has determined that it can retain about $12.5 billion of economic retention stock. This level of retention is in excess of the total value of Army-wide inventory at the wholesale level. GAO plans to do some additional work in the area of retention levels to assess the Army's rationale for the established levels and whether these levels make sense.

QUESTION 2: You state that the inventory at the six national inventory control points doubled from $6 to $12 billion from 1983 to 1988 while the inventory categorized as having "no forecasted demand" increased from $1 billion to $2.6 billion. Can you explain the reasons for this growth and any correlation you can see between the two patterns?

RESPONSE: In my statement, I identified several reasons cited by the Army, and other reasons identified by us, which have contributed to the growth of inventory. These same reasons contributed to the growth of inventory in the retention levels. However, between 1983 and 1988, the rate of growth of stock in the retention and excess categories has been about twice the growth in inventory which have known requirements. For example, whereas AFAO inventory increased about 83 percent, retention and excess items increased 168 percent during the same period.

QUESTION 3: Your testimony estimates that the value of the inventory carried at the installation level could be in the tens of billions of dollars. Is there any way to get a handle on the size of this inventory? Please review for us your findings at the one installation that had $40 million in excess inventory.

RESPONSE: It would be very difficult to identify the value of inventory at the retail levels because there are no central records that track these values at the installation level. The only way to do so would be to obtain the inventory value from each installation.

Our work at the installation (Fort Hood) where we found over $40 million of excess items consisted of comparing the on-hand and due-in stock balances with the authorized stock levels for the two divisions collocated at Fort Hood. We found that excesses on-hand at one division could have been used to fill demands at the other division. In addition, many of the items in an excess position were also being procured by the buying command. I should point out that our work at this location is not finished; therefore, we are not in a position to identify the total magnitude of these problems. As a result of our survey findings, we have expanded our work to other CONUS and overseas locations to determine if the problems at Fort Hood also exist at the other locations.

The above findings are not new. In fact, in a 1987 review, we found many of the same type problems. In that assignment, we found that excesses at some locations could have been redistributed to other locations which had a need for the same items. Also, procurements at the NICP level could have been reduced. Of the $45 million of excess items we identified, procurements at one NICP could have been reduced about $36 million. This whole issue points out what can happen when the wholesale level has no or only limited visibility of stocks at the retail level. Without visibility and redistribution authority, the wholesale level managers are at a disadvantage in trying to make sound procurement decisions.

QUESTION 4: Since you found excess inventories at one installation of about $40 million, would you agree that this is an area where the subcommittee could make substantial reductions to the Army request without effecting readiness levels?

RESPONSE: Yes, I would agree that the Committee should take a hard look at this area in terms of making substantial reductions in the Army's budget request. Our completed and on-going work has convinced me that substantial reductions could be absorbed by the Army without impairing readiness. Furthermore, until the Army takes action to establish an inventory system that enables the wholesale level to have visibility and control over inventory at the retail level, malpositioning of inventory will continue.

While the Army has several initiatives underway to gain visibility, these systems do not extend to the wholesale level. Instead they will provide visibility to the corps and theater levels. However, even with these improved systems, there will not be anyway for determining whether items excess in one corps or theater are in a shortage position elsewhere outside that particular corps or theater. Only when the wholesale level manager has visibility of inventory at the retail level will the Army be able to redistribute stock from locations where there are excesses to locations where there are shortages, and at the same time, avoid buying items that are already in an excess position.

QUESTION 5: Your example of an installation with two divisions that did not communicate with each other about inventory levels was very revealing. You found one division buying stocks even though the other division had excess quantities of the same stocks. Please review your findings at this installation and provide some specific examples of the stocks in question.

RESPONSE: The specifics concerning the findings that one division had excess items and the other division needed the same items are contained in our response to the preceding question. The items listed below are only some of the examples of items in excess at one division and in need by the other division.

ITEMS EXCESS AT ONE LOCATION AND NEEDED AT THE OTHER LOCATION

Stock Number		Unit Cost	Needed	Excess
(1)	2520-01-089-5011	$89,215	14 at 1st CAV	6 at 2nd AD
(2)	1005-01-113-1450	5,375	2 at 1st CAV	4 at 2nd AD
(3)	1005-01-088-4359	5,211	2 at 2nd AD	1 at 1st CAV
(4)	1005-01-113-3762	4,643	2 at 2nd AD	3 at 1st CAV
(5)	1220-01-074-8919	2,364	2 at 1st CAV	1 at 2nd AD
(6)	1015-01-076-6740	1,770	1 at 2nd AD	7 at 1st CAV
(7)	1005-01-225-6208	1,340	1 at 1st CAV	11 at 2nd AD
(8)	1005-01-035-0829	65	2 at 2nd AD	61 at 1st CAV
(9)	1005-01-112-5477	61	1 at 2nd AD	8 at 1st CAV
(10)	1005-00-152-3441	56	604 at 1st CAV	430 at 2nd AD
(11)	1005-01-131-1897	54	2 at 2nd AD	92 at 1st CAV
(12)	1005-01-003-5475	42	6 at 2nd AD	20 at 1st CAV
(13)	1005-00-992-7285	23	21 at 1st CAV	28 at 2nd AD

QUESTION 6: Using the same installation as above, you also found the national inventory control point buying stocks that could be found in excess quantities at the division level. Please give us some examples of these stocks and your findings concerning this problem.

RESPONSE: On a very limited test basis, we selected 66 items in an excess position at Fort Hood to determine if these same items were being procured by the buying command (TACOM). We found that 46 of the items, with an extended value of $4.5 million, were being bought by TACOM. Furthermore, 11 of the 46 items had high priority requisitions due-out to using units. This indicated that equipment was deadlined due to the lack of these items. In fact, two M-1 tanks, in Germany, were deadlined due to the lack of a $1,169 part which was excess at Fort Hood. As part of our review, we will determine the extent to which spare parts in an excess position in CONUS could have been redistributed to overseas locations to cure deadline situations. Again, this is an illustration of what can happen when the wholesale level does not have overall visibility and redistribution authority of stocks at the retail level.

QUESTION 7: You believe the Army could save $15 million in repair costs if serviceable assets in long supply were used in the maintenance program. Doesn't the Army already have such a policy, and, if so, why aren't the depots following it, and what can be done to ensure that the policy is followed?

RESPONSE: Yes, the Army does have a policy which requires that long supply assets be used, to the maximum extent possible, in their repair programs. The problem has been that the Army believes that it does not have a means to match long supply assets with depot repair requirements. However, it should be noted that one of their NICPs (MICOM) has developed a program to overcome this problem. The basic reason the requirement is not being followed is that there is a difference of opinion between DESCOM and the Army. DESCOM believes that the long supply asset should be given to depots on a free issue basis, and the Army believes that the depots should reimburse the wholesale system for the assets the same as any other user. Until this issue is resolved, it is unlikely that any change in practice will occur.

QUESTION 8: The Army statement disagrees with you concerning the use of serviceable assets in long supply in the maintenance program and, in fact, they believe the Army's long supply position would remain unchanged even if these assets were used. You have seen the Army statement, I would like your comments on the Army position?

RESPONSE: The Army's position that using long supply assets in the depot repair programs would merely be converting serviceable long supply to unserviceable long supply assets is valid. However, the point is that the Army already has a sunk cost in the serviceable assets for which there is no forecasted demand. Therefore, why should the Army incur additional costs to repair something which is not currently needed when serviceable assets are available. Only when the serviceable assets are attrited, should the Army consider repairing the unserviceable assets.

QUESTION 9: GAO reported in 1987 that corps-level logistics units had excess stocks of over $155 million, an 83 percent increase from 1984. Please review this problem and give us your views if this is an area the subcommittee should consider for reductions during our review of this year's budget request?

RESPONSE: The major reasons for the situation found in 1987 are exactly the same as we are finding in our current assignment. That is, the excesses were not visible to the wholesale level, and as a result the excesses could not be redistributed from where they were located to where they were needed. Furthermore, as pointed out in our 1987 report, if the wholesale level manager had visibility of these excesses, and had redistributed them to locations where they were needed, procurements of about $36 million at just one buying command could have been avoided. If this same situation applied to the other five buying commands, and we have no reason to believe that it would not, procurements of several hundred million dollars could have been avoided. Based on our current work, the same situation is occurring, but at a greater magnitude.

QUESTION 10: One of the causes you cite for excess stocks is the poor estimating concerning failure rates. Please expand on this problem and what GAO feels can be done to correct it?

RESPONSE: The issue of overstated failure rates as part of the provisioning process was identified in several Army studies as one of the reasons for excess stock being generated at the wholesale and retail levels. Our analysis of stock being excess at the wholesale level has also identified over estimated failure rates as a cause. One of the contributing factors to this is that, for the most part, these rates are determined by the weapon system contractor who has an incentive to over estimate the failure rates. Unfortunately, the government does not have either the resources or the expertise, in many cases, to validate the contractor's estimate. As a result, when the failure rates do not materialize, the stock is returned from the field to the depots and an excess situation occurs. One way the government could do a better job of screening the provisioning lists would be to compare the experienced failure rates for similar type items to the contractor developed estimated failure rates.

QUESTION 11: Excess stocks are also the result of the continuing problem of changing equipment configurations during the fielding of equipment. Rather than producing one model of a piece of equipment, items are continually added and/or deleted, and so the Army, in effect, gets several different versions of the same piece of equipment. And, the supply system must attempt to stock parts for all of the variations. Please give us your observations on this problem and any potential solutions you see to reduce or minimize the problem?

RESPONSE: I assume from the question that you are referring to modifications to existing components which would have the effect of making the existing components obsolete. In such cases, the Army has to ensure that it does not continue to buy the obsolete items. On the other hand, if the question refers to different versions of the same end item, then the Army does have to support two different systems. The key to both situations is for Army managers to know the end item density so that prudent management decisions can be made about what and how much to buy and stock.

QUESTION 12: Some members of the subcommittee were at one Army commodity command last week and were told that the procurement regulations cause a good deal of the inventory problems in the Army. Specifically, if the Army awards a contract to buy a generator, it must recompete the contract for subsequent buys. The potential effect is that on two buys, the Army may wind up with generators from two different companies. One part of the problem is that the Army then has to stock replacement parts for both generators instead of just one standard item. Please give us your comments on this problem and any recommendations you may have to correct it?

RESPONSE: The situation described is the natural outgrowth of the Army's efforts to increase competition, and thus reduce the price it pays for spares. The decision to second source an item has benefits from the standpoint that it increases the mobilization base, increases competition, and reduces the price paid for the item. Second sourcing the item using the original technical data package could result in the service buying the same item manufactured by a different contractor. When the second sourcing is not based on the technical data package, then you are apt to end up with different items that require a separate logistics support package. Therefore, trade-off decisions have to be made which weigh the advantages of increased competition, etc. versus the added cost of establishing another logistics support base.

QUESTION 13: Your testimony discusses the problem with the automatic return item system and the more than $1 billion in items that were returned to the depot under this program. Please discuss this system, what problems you uncovered and what happened to the billion dollars in items that were returned?

RESPONSE: As discussed in my statement, the Army in response to the DOD moratorium on disposal sent out numerous letters to its field activities spelling out the criteria to be used for returning items to the wholesale level. According to field unit representatives, the instructions were often confusing and sometimes contradictory. What subsequently transpired was the field units returned numerous items to the depots which were never intended to be returned. Many of these items are still at the depots in an unserviceable condition because the depots have not and do not intended to establish a repair program for them.

QUESTION 14: Your statement mentions the various Army systems being developed to provide greater visibility over excess items. Many of these systems appear to duplicate each other. Do you have any observations about this duplication and what the Army is doing to eliminate it?

RESPONSE: The proliferation of locally developed systems to gain visibility over excess items is also a concern that we have. Often, these type systems take on a life of their own and the users become comfortable with them. Then when a Army Standard system is superimposed over the local systems, the users either attempt to modify the Standard system or they don't use it. The Army's position is that when the Standard system (SARSS) is implemented there will not be a need for the local systems. We will just have to wait and see what develops.

QUESTION 15: The Standard Army Retail Supply System will provide corps-level visibility of inventory items. At the same time the Army is developing the objective supply system and corps asset visibility system. How do all these systems relate to one another in what they are attempting to do? How long have they been in development and what level of funding is being requested for each of them in 1990?

RESPONSE: All of the systems have the same general objective; that is, to gain visibility over excess items. However, the different systems use different methods to achieve the common objective. Furthermore, systems such as SARSS are more comprehensive than just gaining visibility over excess items. Most of these systems have been in development for about 3 years. We do not have funding data on the systems, but we understand the SARSS system is estimated to cost about $900 million.

QUESTION 16: Do you believe that the Standard Army Retail Supply System will provide total asset visibility to ensure utilization of excess inventories and, if not, what changes would be necessary to do so?

RESPONSE: The Standard Army system as now designed will not provide visibility to the wholesale level. Consequently, there will not be any Army-wide redistribution capability. We believe that in order to optimize the use of the system, the Army needs to establish linkage to the wholesale system. Without such visibility, the cases we found where excess items at Fort Hood could have been used to repair deadlined tanks in Germany will not be identified.

QUESTION 17: If the Army develops a system for total asset visibility would the European Redistribution Facility still be needed and would there be offsetting savings by developing such a system?

RESPONSE: If and when the Army implements a theater-wide inventory visibility system in Europe, there would not be a need to retain the ERFs. However, doing away with the ERFs will also eliminate the existing linkage to the wholesale system unless the Army changes the design of its planned system to incorporate a linkage to the wholesale system. We do not have data on the costs of operating the

ERFs. However, that is part of the information we plan to obtain as we go forward with the review phase of our on-going assignment.

QUESTION 18: The Army recognized it has a problem with excess inventory in Europe and set up redistribution facilities to serve as clearing houses for excesses identified by units in Europe? What does it cost the Army to operate these facilities and how successful are they in dealing with the excess problem?

RESPONSE: As discussed above, we have not obtained cost data on the ERFs. With regard to the second part of the question, the effectiveness of the ERFs in redistributing excess items is a function of the extent to which units identify and turn in their excesses to the ERFs. The ERFs do not have visibility of items at the unit level; therefore, they can only process those excesses that the field units turn-in. One issue that we will pursue during our review is the extent to which units identify and turn-in their excesses.

QUESTION 19: The Army believes that GAO is overstating the dollar value of assets and is uncertain as to how GAO determined current requirements. Please comment on these disputed items?

RESPONSE: We determined the inventory value at the wholesale level for the six NICPs using the Army's own budget stratification documents as of September 30 for fiscal years 1983 to 1988. The specific data that we extracted from these documents included the on-hand and due-in assets for that portion of the inventory stratified against the AFAO requirements.

To this total, we added the inventory values for economic retention, contingency retention, numeric retention, and potential DOD excess.

QUESTION 20: The Army states that 29 percent of their inventory consists of "inapplicable" or long supply items. Please tell us what 29 percent equates to in terms of dollars of inventory? What are the reasons for this large number of items and what is being done to reduce it?

RESPONSE: Using the methodology described above, the value of long supply (economic, contingency, and numeric retention stocks) and potential DOD excess as of September 30, 1988, was about $2.6 billion. The major contributor to these categories of stock are the same as the causes for overall inventory growth, i.e. inflation, modernization, etc.

QUESTION 21: The Army states that GAO findings concerning Buy-Ahead practices only pertain to one national inventory control point. Please explain the findings, the magnitude of this practice and the locations where it was found to be prevalent?

RESPONSE: As discussed in my statement, we found that the Army was buying items ahead of when they were needed; sometimes as much as 16 month prior to the time the Army would have reordered based on the projected demands for the item. At one location (TACOM), our analysis of 31 items showed that the Army had initiated unnecessary procurements of about $88 million because they procured the items ahead of when the items should have been ordered.

In order to determine if this same practice was being followed at other NICPs, we performed a limited test at MICOM. Our analysis of 10 items showed that buy ahead procurements of about $4.8 million were initiated. Subsequent to our review, the Army, in August 1988, told us that they had discontinued the buy ahead practice.

QUESTION 22: Army policy allows units to retain twice the number of repair parts over its requisition objective, which is 45 days of supply. Please explain this policy and give us your views on why it is a valid objective given the cost to procure and maintain inventories that would be twice their required size?

RESPONSE: Army policy allows retail level activities to retain stock levels for nonreparable parts equal to twice the requirements objective. We do not necessarily agree with this practice. We would prefer that the requirements objective be the baseline for determining when an item is in an excess position. This would make the practice consistent with the Army's policy for reparable items. The particular issue of why the Army has a different policy for nonreparable items is one that we plan to pursue during our on-going review.

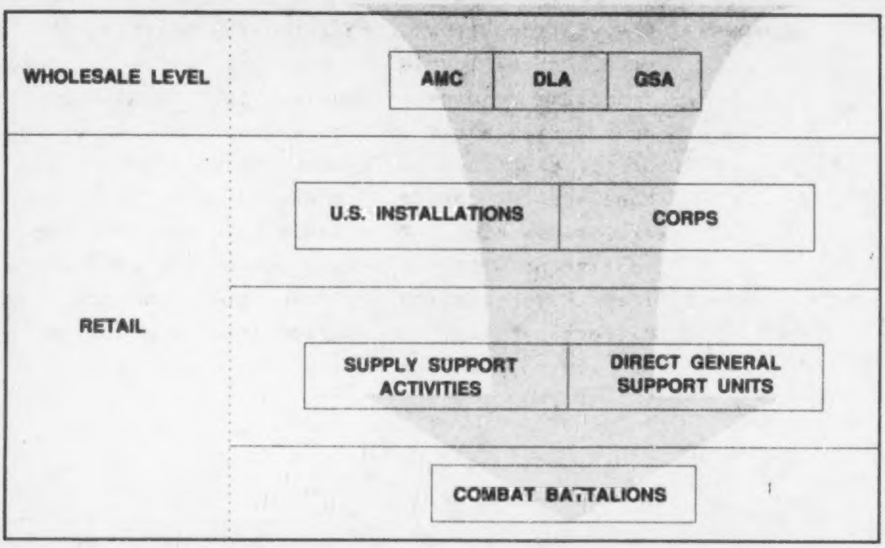
Mr. **Ray**. General Murray, Mr. Mills, I am going to be presiding until the Chairman gets back, so we will not lose any time here.

Before we begin, General Murray, it would be helpful if you would take us through the charts that you have prepared on the Army's supply system and then we can get to the testimony.

STATEMENT OF MAJ. GEN. CHARLES M. MURRAY, DIRECTOR OF SUPPLY AND MAINTENANCE, OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS, DEPARTMENT OF THE ARMY; ACCOMPANIED BY: A. DAVID MILLS, ASSISTANT DEPUTY CHIEF OF STAFF FOR SUPPLY, MAINTENANCE AND TRANSPORTATION, HEADQUARTERS, U.S. ARMY MATERIEL COMMAND

General **Murray**. Very well, sir. I would be happy to do that.

The Chart 1 is a pictorial representation of the Army supply system illustrating both the wholesale and the retail side.



ARMY SUPPLY STRUCTURE

In the wholesale levels, you will see the Army Materiel Command, the Defense Logistics Agency, and the General Services Administration. Those items that we will be discussing today are handled by the Army Materiel Command.

The Defense Logistics Agency handles consumable items, and the General Services Administration handles expendables, paper, pencils, diskettes, so forth.

The Army Materiel Command procures items from civilian industry as well as produces items in its arsenals and its plants. It repairs items in its depot system. Those items are then issued upon request through to the retail system. The retail level consists of installations overseas, our corps level facilities, down to supply support activities, and our direct and general support units, and from them down to our combat battalions.

In Mr. Davis' testimony, he would say that there was no visibility between those two segments of the system. It is, in fact, an integrated system. Perhaps not as integrated as any of us would care for, but there is some viable visibility, asset visibility, between those two levels.

One is in the area of the SIMS-X, Selected Item Management System-Expanded. Now, that system currently has in it about 4,500 high dollar value critical readiness items. Those items are reported on a transactional basis to the item managers in the national inventory control points.

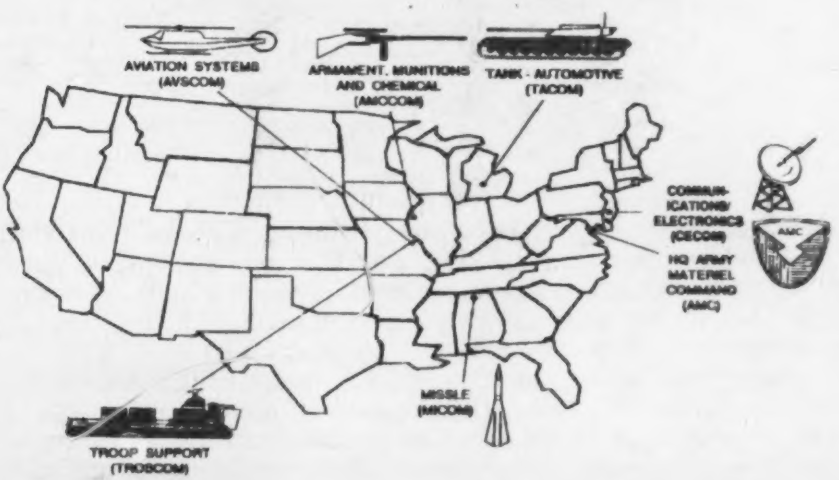
Also, we have a continuing balance system, CBS-X, which reports on property book items with a value of $5,000 or higher. Again these are reported on a transactional basis to the item managers.

So, for those items, the SIMS-X and the CBS-X, the wholesale item manager does have visibility down to retail level.

If we refer to Chart Number 2, sir, that reflects the Army Materiel Command's Commodity Commands, with their locations and the commodities they handle. In the upper right, you see the Tank Automotive Command located in Detroit. It has responsibility for tank automotive items, tanks, trucks, etc.

AMC's COMMODITY COMMANDS

NATIONAL INVENTORY CONTROL POINT - NATIONAL MAINTENANCE POINT


AVIATION SYSTEMS
(AVSCOM)
ARMAMENT, MUNITIONS AND CHEMICAL
(AMCCOM)
TANK - AUTOMOTIVE
(TACOM)
COMMUNICATIONS/ ELECTRONICS
(CECOM)
AMC
HQ ARMY MATERIEL COMMAND
(AMC)
MISSLE
(MICOM)
TROOP SUPPORT
(TROSCOM)

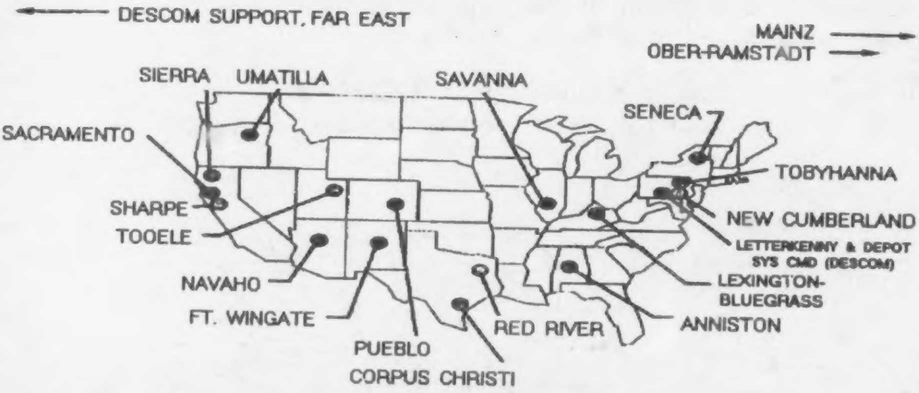
The Communications Electronics Command in Fort Monmouth, NJ, handles radios and those items. The Army Materiel Command Headquarters is located here in Alexandria, VA. In Alabama, the

Missile Command. In St. Louis, we have two commands. The Aviation Systems Command, handles helicopters and its subsystems. The Troop Support Command handles a variety of items, from boats and barges to clothing, etc. In Rock Island Arsenal, the Armament, Munitions and Chemical Command handles those commodities.

Each one of those commodity commands has two primary functions. One, the national inventory control point, manages items. They develop the requirements for items, distribute those items upon request, and manage the items internally. The national maintenance point develops the maintenance criteria and maintenance policy for the commodities handled and runs the depot maintenance program for those items.

Sir, on Chart 3, we show the Depot Systems Command and the depots of the Army Materiel Command. Fifteen depots and depot activities in ten different states, commanded and controlled by the Depot Systems Command located at New Cumberland Army Depot.

DEPOT SYSTEM COMMAND (DESCOM)
DEPOTS AND DEPOT ACTIVITIES


DESCOM SUPPORT, FAR EAST
MAINZ
OBER-RAMSTADT
SIERRA
UMATILLA
SAVANNA
SENECA
SACRAMENTO
TOBYHANNA
SHARPE
TOOELE
NEW CUMBERLAND
LETTERKENNY & DEPOT SYS CMD (DESCOM)
LEXINGTON-BLUEGRASS
NAVAHO
FT. WINGATE
RED RIVER
ANNISTON
PUEBLO
CORPUS CHRISTI

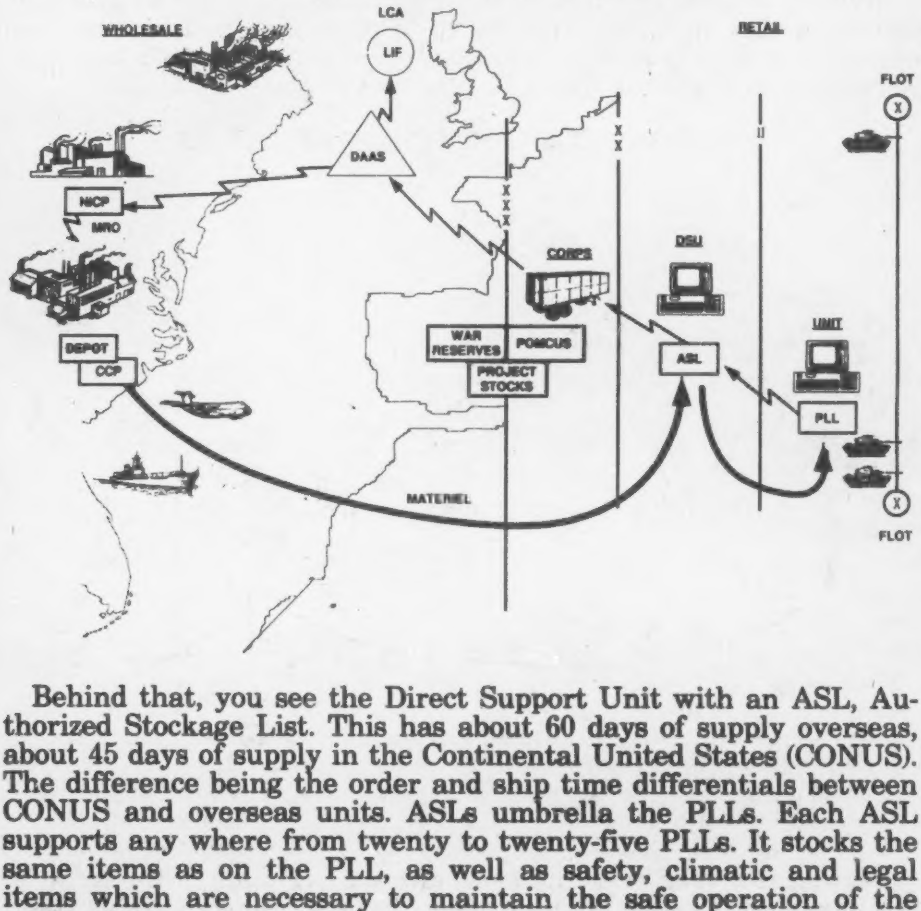
Many of these depots are purely supply. Others have both a supply and maintenance mission. As Mr. Davis pointed out, Anniston Army Depot in Alabama has the depot repair mission for tanks. Red River Army Depot in Texarkana, TX, has the depot maintenance mission for Army personnel carriers.

Corpus Christi in Corpus Christi, TX, does depot maintenance of helicopters. Sharpe Army Depot—excuse me. Sacramento Army Depot in Sacramento, CA, repairs communications electronics devices. Tobyhanna in Pennsylvania also handles communications electronics devices. Letterkenny Army Depot repairs trucks and weapon systems.

So, we have both a supply and maintenance mission in those various depots.

Sir, if you would refer to Chart Number 4. It is a generalized description of the flow of the materiel throughout the Army. On the right-hand side of the chart, you see unit and PLL. PLL is prescribed load list. It is in the hands of soldiers at the company battery troop level. It consists of about 15 days of supply on low dollar value, easily replaceable items that are replaced by the soldiers in the unit.

ARMY SUPPLY SYSTEM



Behind that, you see the Direct Support Unit with an ASL, Authorized Stockage List. This has about 60 days of supply overseas, about 45 days of supply in the Continental United States (CONUS). The difference being the order and ship time differentials between CONUS and overseas units. ASLs umbrella the PLLs. Each ASL supports any where from twenty to twenty-five PLLs. It stocks the same items as on the PLL, as well as safety, climatic and legal items which are necessary to maintain the safe operation of the equipment.

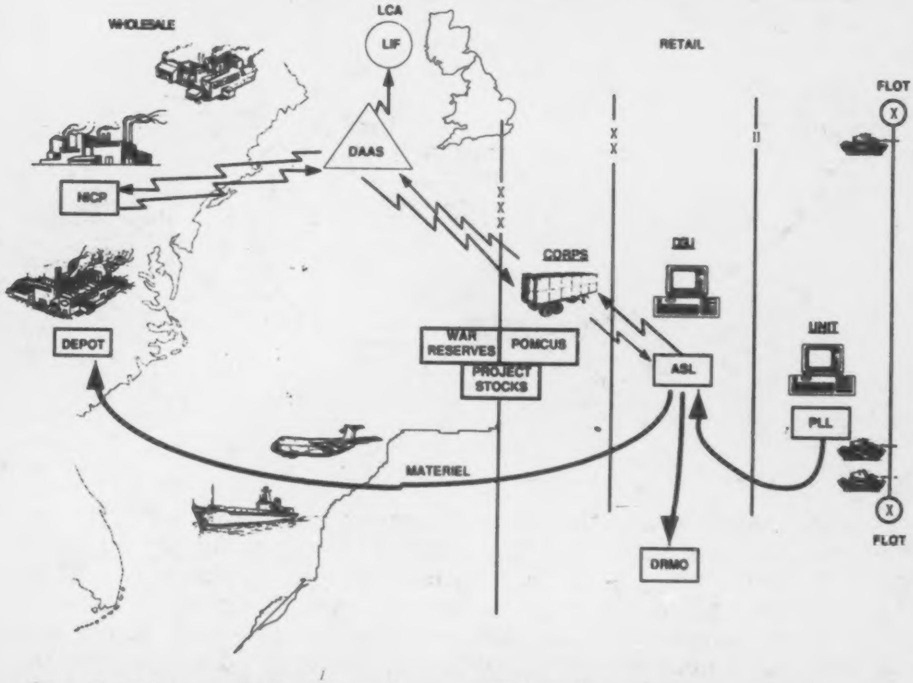
The requisition, the request for a part is passed from the PLL through the ASL, through the corps level, to the DAAS, the Defense Automatic Addressal System. DAAS, because of the codes on that request, knows to which national inventory control point to pass the request.

It releases the request for supplies to the national inventory control point, which cuts the materiel release order to the appropriate depot. The materiel flows back directly to the ASL level for issue to the PLL level. That system—that flow in itself demonstrates an integration of the Army supply system. The demand placed by that unit is a part of the demands which causes the wholesale system to buy and stock materiel.

So, there is an integration and connectivity between those two systems.

On Chart 5, sir, is the flow or the retrograde of Army materiel. We have heard some discussion on that this morning as the Automatic Return Items program. The materiel flows from unit level to its ASL level, corps level. At corps a determination is made whether property should be disposed of and, if so, sent to a Defense Reutilization and Marketing Office, or to a project stock or war reserve, if it is in serviceable condition, or perhaps returned to depot for repair and overhaul.

ARMY MATERIEL RETURNS PROGRAM



Sir, that is a very brief and generalized description of the Army's supply system. I would point out that there is connectivity between the wholesale and retail levels and some integration, perhaps not as much as we would care for.

Mr. **Ray**. You may proceed with your testimony.

General **Murray**. Thank you, sir.

I would like to introduce Mr. A. David Mills. Mr. Mills is the Assistant Deputy Chief of Staff for Supply, Maintenance and Transportation, at the Army Materiel Command. He has held that position for the past 4 years.

He is a member of the Senior Executive Service and has been since 1982. I would like to note that Mr. Mills was honored last year with the President's Distinguished Service Award for Senior Executives.

Mr. RAY. Congratulations, Mr. Mills.

Mr. MILLS. Thank you.

General MURRAY. Sir, we believe that today's Army is the best equipped force in the world. It has a logistics system which ensures that the Army of over one and a half million soldiers is ready to fight and fit to win.

The mission requires over one million individually identified items. These items range from tanks to clothing, to medical materiel and ammunition and high explosives.

Today's inventory of major items and weapons systems exceeds a $118 billion. This is larger than the combined inventories of IBM, General Motors, Exxon, Mobil, Sears and K-Mart. So, it is a large system. Those inventories are located in over 2,000 installations worldwide.

I have talked briefly about our two level system. Now, let me address some—in general terms, of the findings of the GAO. I would like to begin, sir, by saying that we generally agree with the findings of the GAO. We have no major differences with them.

We do take some exceptions to their methodologies. We believe that some of their methodologies tend to overstate the amount of long supply and excesses in our inventories.

When we have the reports in hand, we will be able to iron out those differences and the methodologies and come to some agreement on them.

We do have some reservations on the review conducted regarding the use of long supply assets in depot maintenance. On face value, it sounds like exactly the right thing to do. In fact, we have got a regulation on the books that says we will do that. We have not been doing that because we have not proven yet that it is, in fact, cost effective.

The Army is in the process of running a test on that using one commodity, the missile commodity. That test will be completed at the end of this fiscal year, and at that time, based on the results of that test and the GAO findings, we will be in a better position to determine the cost effectiveness of that system.

The GAO identified significant amounts of growth of items with no known requirements. I would point out that while they have no known requirements in the current budget year, if you look beyond that budget year, you will find that much of that inventory, and we project somewhere near 50 percent of that inventory, will be used, will have forecasted requirements and will be used to offset future procurements.

In their review of the Army buy-ahead policy and practices, the GAO did find that two of the buying commands were buying ahead. Buying items for which they had not reached the reorder point. This is in violation of Army policy. Once the situation was discovered, corrective actions were taken and those two commands are now in compliance with Army policy.

Elimination of retail excesses and its causes have been a focus of the Army for several years now. In May of 1988, I received the results of a study I chartered on the causes of excesses, and I think we must change our focus from ways of getting rid of excess to ways of ceasing to generate excess, and that is what this study has done.

It has made some recommendations. I have implemented or have approved the implementation of many of those recommendations, and the automated systems and policy changes will be implemented this summer.

Asset visibility is a common denominator in several of the General Accounting Office's reviews, and we are moving in several areas to improve that asset visibility.

First, I would like to comment on the SARSS system that Mr. Davis mentioned. It will provide in the division asset visibility across the five ASLs of the division, giving an automated view and aiding in the cross-leveling of assets in the division. It will do the same thing at corps level and in its final implementation at the theater level.

So, asset visibility across the corps and theaters is coming. That system will be totally implemented in mid-1990.

We are also developing a prototype supply system called the Objective Supply System, which takes the same benefits as does SARSS and extends that over a larger front. It also provides greater interface between the retail and wholesale systems because it places the retail asset balance files on record at the wholesale source of supply. The wholesale source of supply then can direct use of excess assets at an installation before passing the requisition to the wholesale system.

In summary, sir, the logistics of ensuring our soldiers are ready to fight is big business. The Army is working toward greater asset visibility and to maximize the return on Army investment. We look forward to the continued help from GAO and to the continued support from the House Armed Services Committee.

Sir, that concludes my statement. I will be happy to respond to any questions.

PREPARED STATEMENT OF MAJ. GEN. CHARLES M. MURRAY

Mr. Chairman and Members of the Readiness Subcommittee, I am pleased to testify once again on the Army's inventory management program.

Today's Army is the best equipped force in the world. Our logistics system ensures our 772,000 active duty soldiers and 776,000 reserve component soldiers are always ready to fight and fit to win. If they must fight, the logistics system will sustain our soldiers anywhere in the world.

The Army's operation and maintenance require the use of over 1.2 million individually identified items. Items range from tanks to track and trucks to tires. From individual clothing to medical materiel. From tools and test equipment to ammunition and high explosives.

The Army manages over 416,000 items. The balance of our supply support is provided by the Defense Logistics Agency, the General Services Administration, and the other Services.

To accomplish our mission the Army employs a two-level supply system which includes a wholesale procurement and production component and a retail, or customer, level. The Army's wholesaler is the Army Materiel Command. The Army Materiel Command's inventory is stored at 15 depots in 10 states. The Army's retail customers are located worldwide at 2241 installations.

Today, the Army's total inventory of major items, weapon systems, exceeds $118.6 billion. This is larger than the combined inventories of IBM, General Motors, EXXON, Mobil, Sears, and K-Mart.

During my nearly three years as the Director of Supply and Maintenance for the Army's Deputy Chief of Staff for Logistics, the Army has been expanding stock visibility between our two levels of supply. The Army's new generation of automated systems, now being fielded to our soldiers, will provide greater asset visibility and opportunities for cross-leveling and asset redistribution than ever before possible in the U.S. Army. I will discuss this and other similar initiatives later in my testimony.

Against this backdrop, I would like to discuss four ongoing or recently completed General Accounting Office reviews, which I understand are of interest to this subcommittee. These are:

a. Growth of Army Inventory Levels (GAO Code 393310);

b. Army Buy-Ahead Practices (GAO Code 393294);

c. Review of Army Depot-Level Inventories (GAO Code 393300);

d. Excess Items at the Retail Level (GAO Code 393303).

Before discussing the specifics of these four reviews, I want to state the Army's concern with not being provided the opportunity to review and comment on the General Accounting Office's findings and recommendations prior to this hearing.

As I mentioned during my testimony last year, the Army works to maintain a positive relationship with both internal and external audit and investigative agencies. We view their findings and recommendations as important independent measures of the health and well-being of the Army's logistics system. I am not aware of a single report by these agencies that did not cause the Army to step back and review its policies, procedures, and compliance mechanisms. This positive relationship will continue.

Growth of Army Inventory (GAO Assignment 393310)

The General Accounting Office is now conducting a full review of the growth of the Army's secondary items at the wholesale level between fiscal years 1983 and 1987. Secondary items are the replacement items, repair parts and consumable items that support our weapon systems.

Since I have not been provided the opportunity to review the General Accounting Office's report and their methodology, I cannot comment on their specifics. Additionally, our discussions with the General Accounting Office lead us to believe their methodology overstated the dollar value of assets and we are uncertain as to their baseline for determining current requirements.

The Army's inventory is comprised of both applicable and inapplicable stocks. Applicable stocks are those for which we have a current requirement, known as the approved force acquisition objective. Inapplicable stocks are items above the approved force acquisition objective which we continue to hold to fill unforecasted demands. The Army's retention policy is in full compliance with Department of Defense Directive 4100.37, "Retention and Transfer of Material Assets."

Since fiscal year 1984, the growth in Army inventories has been influenced by a 14 percent increase in the number of stocked high cost reparable components and assemblages required to sustain our modern weapon systems on the battlefield. Although the number of stocked consumable items has remained relatively constant, we have also increased investments in that area for requirements in support of the repair of these assemblages and our modernized fleet of end items. Accordingly, we have supported a 53 percent growth in our on-the-shelf and on procurement inventory investment for components and assemblages as well as a 32 percent growth for consumable items. Today, almost 61 percent of our on hand inventory is made up of assemblages that can be recycled through the wholesale inventory for depot repair and returned to the supply system as opposed to 54 percent in fiscal year 1984. However, we are making larger investments in consumable item inventories to support that repair cycle process. Also, we continue to work on optimizing our inventory of inapplicable or long supply assets which now make up 29 percent of our on hand inventory. We have succeeded in reducing those levels by six percent since fiscal year 1984. I will comment further on these aspects of our inventory management mission later in this statement.

There are some legitimate reasons for the Army's inventory growth during the timeframe covered by this review. They include inflation, force modernization, improved stockage of required parts, changes in retention policy, and the need for life of type buys.

The Army's effort to modernize our force is the largest single contributor to inventory growth. During the timeframe of this report our inventory of major items, weapon systems, increased over 90 percent, from $56 billion to $106.7 billion. This growth is indicative of the significant increases we had in the end item densities of our modernized weapon systems. For example, during this five year period the Army had a 469 percent increase in our M1s, a 1328 percent increase in our Bradley Fighting Vehicles, a 158 percent increase in our Blackhawk helicopters, and the introduction of the Apache Air Attack Helicopter. This successful modernization effort directly translates into a stronger war-fighting capability. During this same timeframe the number of Army managed individual national stock numbered items required to support this modernization effort increased 18 percent from 338,000 to 399,000 items.

I would like to emphasize: the Army's modernization strategy involves the displacement and retention, not disposal, of many major weapon systems and their related parts. As the new systems are fielded, displaced weapon systems are moved from the active force to the reserve component, war reserves, or retained for Foreign Military Sales. The Army's need to continue logistics support for both the new and displaced systems causes inventory growth.

Secondly, the increased dollar value of the Army's inventory is the result of implementing more stringent Department of Defense retention and disposal policy. As I mentioned earlier, Department of Defense Directive 4100.37 requires retention of assets that are serviceable or economically reparable, and have application to a weapon system in active use by U.S. forces. This retention provides on-hand assets to fill unforecasted needs. A key point is, inapplicable assets can be rapidly drawn into applicable stocks. This occurs because of demand fluctuations, changes to deployment schedules, and changes in operating tempo. Thus, current policy properly ensures the availability and utilization of assets as requirements develop. Later, I will address some of the Army's ongoing initiatives to preclude the generation of unrequired materiel.

Thirdly, during the five years covered by this review the Army's stock availability for our high dollar value, procurement funded, secondary items improved 10 percent. Stock availability for these items was 75.5 percent at the beginning of fiscal year 1983 and just over 85 percent (85.1 percent) at the end of fiscal year 1987. Today our stock availability for these items is over 86 percent. This means our soldiers' requests for high dollar value spares are filled immediately over 86 percent of the time and equipment is returned to a ready status quicker. Our improved stock availability posture is also an indicator that we are purchasing the right parts in the right quantity.

I will now address the General Accounting Office's findings with regard to assets the Army's Aviation Systems Command had in long supply on September 30, 1988. As I indicated earlier, we are uncertain as to the computational methodology used by the General Accounting Office.

The General Accounting Office identified much of the Army's long supply status to four weapon systems--the CH-47, AH-64, OH-58D, and UH-60. Four hundred twenty-seven million dollars ($427M), of these long supply assets were purchased for early CH-47 models. The long supply position for this aircraft is directly related to decreases in aircraft density and flying hour programs as older CH-47 models are inducted into the CH-47D modernization program. Most of the items have not been procured since the Vietnam era. Three hundred eighty-one million dollars ($381M) of these assets, including $272.4 million in aircraft engines and transmissions, are applicable only to the older models of CH-47s and are being sold to foreign military sales customers, disassembled to recover components usable on the "D" configuration, or turned in to disposal. Forty-six million dollars ($46M) in assets can be reworked to the newer CH-47D configuration and are being used to offset buy requirements. Eighteen million three hundred thousand dollars ($18.3M) of the long supply assets for the AH-64 and UH-60 are attributable to design changes. In this case the assets are, to the maximum extent practicable, reworked to offset buy requirements. An additional $5.3 million of our long supply posture was caused by overbuys attributable to greater than anticipated reliability. These assets are being held for future use.

Much of the Army's secondary item growth is explained by the above factors. I acknowledge that some of this growth indicates a need for the Army to improve its inventory management practices. I will now discuss several ongoing initiatives to improve our inventory management. These initiatives focus on improving the responsiveness and accuracy of our requirements determination and stratification processes.

The Army Materiel Command is currently developing The Utilization of Long Supply Selective Assets automated reports to provide item managers with greater visibility of long supply assets. This improved visibility will enable the item manager to identify assets which could be provided to contractors as government furnished materiel. This initiative complements the Army Materiel Command's efforts to terminate contracts for items which have moved into our inapplicable inventory.

Other actions the Army has taken since fiscal year 1987 to minimize potential wholesale excesses are identified below. We have reduced the minimum economic order quantity from twelve to six months. We have also limited buys for new items. Limitations on new item buys include modeling our ordering requirements based upon days of supply, instead of economic order quantity. Also, we no longer compute initial issue quantities for nonessential items.

During fiscal year 1987, the Army informed its buying commands of the inappropriateness of advancing buys ahead of the reorder point. I will discuss this issue a little later with regard to another of the General Accounting Office's current reviews.

I will now briefly discuss the provisioning process and two ongoing functional program reviews. The provisioning process identifies those secondary items needed to support a new weapon system in its first few years after deployment. The challenge is purchasing the minimum essential quantity of spare and repair parts for a system that may still be undergoing engineering redesign. When the system is deployed to our troops, all required wholesale logistics support must be available.

The Army Materiel Command's Blue Ribbon Panel on Provisioning was chartered last year as a Total Quality Management initiative to review our initial provisioning program. This panel's review will be completed by July 1989. The panel's focus is on a total quality management review of the provisioning process. This will include information provided by audits, studies, and panel members. The panel will develop appropriate policies, procedures, and action plans to identify any deficiencies identified as a result of the review.

The Office of the Secretary of Defense's Provisioning Policy Working Group Study was initiated this year. It is identifying and analyzing systemic problems in the provisioning process and the impact provisioning has on inventory growth. This study is scheduled for completion in September 1989. We anticipate these studies will help our continuing efforts to optimize the Army's investment in provisioning inventories in support of our new systems.

Key tools used by our inventory managers to track items are the requirements determination and execution system and the budget stratification process. Both were introduced into the standard supply system in 1974 and are currently undergoing needed modernization. With the increasing complexity of the items in our inventory, item managers do not have the time for many of the manual interfaces required within these systems. Therefore, the Army is pursuing a budget stratification modernization effort, as well as the creation of a Supply Management Data Base. Budget stratification modernization will streamline and improve the responsiveness of the budget stratification process. This initiative will provide us more efficient inventory management. The Supply Management Data Base will allow real time data exchange within all the Major Subordinated Commands of the Army Materiel Command. This data base will significantly enhance item managers' responsiveness within our dynamic environment.

In addition to these initiatives to improve our requirements determination process, the Army has taken action to minimize the retention of unnecessary items. Since 1988 the Army has been disposing of selected unserviceable reparables which are above our approved force acquisition objective and identified as numeric retention. Additionally, the Army is placing greater emphasis on field level repair of assets.

During the timeframe of this review the Army, through the Defense Inactive Item Program and other management programs, has deleted over 183,000 National Stock Numbers from our inventory. Furthermore, our aggressive competition in contracting program yielded $153 million in cost avoidance in fiscal years 1987 and 1988. The Army's competition efforts complement our inventory management initiatives. Both are designed to reduce the resources we have invested in our inventory.

I want to assure you that the Army, this committee, and the General Accounting Office have the same goal--determining the optimum balance between inventory acquisition and inventory utilization. We recognize that errors in either direction may have severe consequences. The purchase of too few items impacts the readiness of our troops through the nonavailability of required parts. The purchase of too many or the wrong parts is poor stewardship of our resources and does not aid in our mission accomplishment. The Army is continuing to take actions to improve our inventory management program. I look forward to the issuance of the General Accounting Office's report on this subject.

Army Buy-Ahead Practices (GAO Job Code 393294)

The second General Accounting Office report of interest to the Committee is their March to August 1988 audit of buy-ahead practices. In December 1988, the General Accounting Office's tentative findings were discussed with the Army. Based upon this discussion, I understand one of the Army's six Inventory Control Points was found to have initiated procurement actions for secondary items prior to their reorder point being reached. This is a violation of policy stated in Army Regulations 710-1 and 37-1. This activity was also found to be advancing procurements by as much as three years. Once again, this practice is in noncompliance with Army policy. When the General Accounting Office discovered this practice, the Army took immediate action to discontinue it. This has been accomplished.

The Army Materiel Command has made buy-ahead one of their top items of interest during their staff assistance reviews. Additionally, buy-ahead is a regular topic at the semiannual Department of Army/Army Materiel Command budget reviews.

I do not want to leave this committee with the impression that buy-ahead is always inappropriate. There are instances when buying ahead is prudent and cost-effective. Army policy allows buy-ahead practices to take advantage of quantity discounts, to increase procurement orders to minimum economic production quantities, and to make life of type buys. In each instance, these actions are consistent with sound business practices.

In summary, the General Accounting Office's review revealed that one Army activity was violating established Army buy-ahead policy. When the error was discovered, corrective action was taken.

Review of Army Depot Level Inventories (GAO Code No. 393300)

The third audit I will discuss is the utilization of long supply assets in depot maintenance programs. The General Accounting Office's review of this issue identified a potential savings of $15.0 million. This savings was premised on automatically issuing long supply reparables to support depot maintenance. This proposal is limited to reparable items, since consumables are automatically issued to support depot maintenance. The review's projected savings for implementation of this proposal equates to 0.8 percent of the Army's fiscal year 1989 funded depot maintenance program.

The Army has reservations about implementing this proposal. Based on this proposal and similar reviews in the past, a limited test of the proposed procedure is being conducted this fiscal year. We are also examining the substantial changes to our automated systems that would be necessitated by this proposed procedure.

To provide us all a common baseline from which to understand this proposal, I will briefly discuss how reparable components are managed as part of the depot overhaul of a weapon system. I will illustrate using a tank engine.

Approximately two years before the tank's overhaul program is initiated, all parts required to support the program are computed. This forecast is based on historical consumption data. As part of this process we estimate how many engines will require repair and the piece parts needed to perform these repairs. If we forecast that required parts will not be available to support the program, procurements are initiated.

When the tanks are inducted for overhaul, the unserviceable engines are removed, repaired, and returned to the tank production line. The only engines ordered are those needed to replace washouts, i.e. those which are not economical to repair.

Under the proposed procedure, tank engines in long supply would be ordered to replace unserviceable engines removed from tanks during overhaul. The unserviceable engine would be placed in depot storage, without repair. Bottom line is the Army's long supply position would remain unchanged. This proposal merely institutes the swapping of serviceable and unserviceable assets. Additionally, since the piece parts ordered two years earlier for repair of the unserviceable engines are not used, they also become long supply.

Under the Army's current procedures, the long supply of serviceable engines will decrease as engines are issued to replace washouts in the overhaul program and to support field requirements.

The Army's analysis of this issue is not complete. As I indicated earlier, we are currently testing this proposal. A key feature of the test will be the automation of the process. This automation must match long supply assets with applicable maintenance programs, and identify the maintenance depots through automated transactions. The automated changes must also allow us to selectively suppress the piece part computation for repair of selected components of an end item. Based on the results of the Army's test and the General Accounting Office's report, we will determine the feasibility and cost effectiveness of full implementation of this concept.

Excess Items at Retail Level (GAO Code No. 393303)

The fourth and final area I will address is the General Accounting Office's review being conducted to determine the effectiveness of the Army's retail inventory management system. The emphasis of this review is on the systems which identify excesses and the redistribution of repair parts among Army units. Most of the General Accounting Office's work was done between August and September of 1988.

Fort Hood, Texas was the initial site for this review. The Army has now provided additional data from nine Forces Command installations and all divisional units in Europe. These data will be used to determine whether excess management problems identified at Fort Hood are unique to that installation or are prevalent Army wide. At Fort Hood, significant amounts of excess materiel were being retained. This excess was not visible to the Army's wholesale management level.

The General Accounting Office defines excess as the quantity of an item that is on hand and/or on order that exceeds the unit's authorized stockage quantity. It is possible to have excess computed without having physical assets on hand. This occurs when quantities of an item ordered by the unit exceed the sum of the quantity authorized. The quantity authorized to be stocked in direct support units is called the requisition objective, or simply the RO. In the Continental United States this equates to approximately 45 days of supply.

Army policy allows units to retain repair parts above the RO without identifying them as excess. Units may retain up to twice the RO for those usually low dollar nonreparable parts. This retention level allows units to draw down parts over the RO by attrition. This policy saves on the shipping cost involved in moving these items.

The General Accounting Office survey did not consider these authorized retention levels in determining the magnitude of the retail excess. Consideration of this policy would have reduced the amount of excess reported. I am not trying to minimize the problem of excess at the retail level. The problem is considerable and is being addressed in policy and automation initiatives. I will discuss these initiatives in a moment.

The study also noted the lack of visibility of retail stocks at the wholesale level prevents item managers from utilizing excess to offset procurement. Further, this lack of visibility may translate into backorders being generated while excesses exist elsewhere in the Army.

Analysis of the review's findings at Fort Hood indicates several contributing factors to excess generation. There was an apparent need for increased command emphasis in this area. Commanders were not aware of the magnitude of the excess being retained in their units. I can tell you that today excess is a major area of command emphasis.

I visited Fort Hood in February, and discussed excess with III Corps' senior logisticians. I reviewed their progress, their plan to reduce the volume of on-hand excess, and their efforts to eliminate excess generation. My personal observations lead me to report there is a definite positive attitude towards eliminating current excess and preventing its generation in the future.

Fort Hood units are now operating in accordance with Army policy. They are conducting inventories as required. Demand history summaries and excess cycles are being produced. Fort Hood has established a team to focus on systemic generation of excess. Additionally, today the Deputy Corps Commander personally oversees excess management at Fort Hood.

The policy to hold excess referred to in the General Accounting Office review is no longer applicable. This policy did not apply to repair parts in general, but to items not stocked at the Corps. These items would normally be high demand, low dollar common hardware, such as nuts, bolts, and gaskets that are usually stocked in a Quick Supply Store. The 2nd Armored Division elected not to operate a Quick Supply Store.

Fort Hood personnel identified problems in excess generation and management in the summer of 1988, prior to the General Accounting Office's review. The excesses and management problems were confirmed by the General Accounting Office.

Another factor in the creation of excess is the shortcoming in our current automated inventory management systems. There is currently no automated capability to cancel excess dues in, nor will our computer automatically issue nonstockage (called fringe) lines against backorders. There is no Corps lateral asset visibility between the subordinate divisions. This means cross leveling, moving excesses in one unit to fill shortages in other units, is accomplished by phone and the "sneaker net."

Army policy is clear. It requires demand history and excess updates to be conducted at least monthly. Retention policy for direct support units specifically limits what can be retained. As

I mentioned earlier, the retention level is twice the RO for nonreparable items. The Army authorizes no retention above the RO for reparable items. For items not authorized to be stocked on the Authorized Stockage List, the retention level is zero.

The Army is concerned with excess. The Army continues to initiate regulatory and systemic changes to address this problem. Additionally, the Army has changed its focus from dealing with the redistribution of excess to attacking causes of excess generation.

An Army study into the causes of excess was completed in March 1988. It identified three major causes of excess. These were procedural errors, supply turbulence, and systemic shortcomings, such as failing to redistribute excess against backorders. This study produced 31 recommendations. After thorough review of the study's findings, I approved 17 changes to policy and automated system procedures. These changes will be implemented this summer. Examples of forthcoming changes are enhancements to automated systems, better management reports, issuing "fringe" items against backorders, and monthly Authorized Stockage List updates.

A major point identified in the study is reduction of excess requires a change in orientation. More is not better. Emphasis must be placed on not ordering excess, following Army policy on stockage and retention, and demanding strict compliance with system operating procedures.

I would like to elaborate on several initiatives which will have major impact for improving retail level supply management in the near future.

The Army is fielding a new automated system at the retail level called Standard Army Retail Supply System (SARSS), which replaces the current Direct Support Unit Standard Supply System (DS4), and Standard Army Intermediate Level Supply System (SAILS). SARSS will provide asset visibility from the division, through the Corps, to the theater level. At each level, we will be able to automatically cross level assets between units to meet operational requirements. Excess processing will be accomplished on a real time basis.

The Army is also developing a prototype supply system with the goal of integrating the retail and wholesale supply levels. Using existing hardware, the Objective Supply System allows the user level to pass requests for items directly to the wholesale level, where an asset visibility file is maintained for the total installation. An automated search of installation assets takes place before any request is passed to the source of supply. During a two month concept demonstration of the Objective Supply System prototype at Fort Hood, $92,000 worth of secondary items were redistributed on the installation. Order ship time to Fort Hood from the depot was reduced from 21.6 days to 6.6 days for the test items involved in the demonstration. Reduced order ship time ultimately translates into reduced supply pipeline inventory. This prototype demonstrates significant potential for streamlining our logistics system, reducing our investment in pipeline assets, while maintaining readiness. Current plans call for enhancing the prototype system at Fort Hood and extending it to Fort Rucker next month for further testing and evaluation. During prototype testing of this system we will be conducting a cost benefit analysis to determine its efficiency.

Asset visibility of retail stocks at the wholesale level is being enhanced. Headquarters, Department of the Army, and the Army Materiel Command are developing improvements to the Selected Item Management System - Expanded (SIMS-X). This system provides item managers with vertical visibility of selected high dollar and critical readiness items. Every transaction posted to the retail stock records is automatically transmitted to the wholesale level and recorded in the Inventory Control Points' database. In the past, inclusion of items in this program was optional and there was limited use of the data in making supply management decisions. In December 1988, the Army approved mandatory selection criteria for inclusion of items in the program. A system change request was initiated to allow the automatic reject or challenge of requistions. Future enhancements will focus on determining how to use effectively the data in repair and buy decisions, as well as asset redistribution.

The Army will continue our aggressive war on excess. We will continue to work closely with the General Accounting Office on this issue. Their review will help us focus on the basic issues if it pinpoints the root causes of excess. I look forward to reviewing the General Accounting Office's report.

In conclusion, the logistics of ensuring our 1.5 million soldiers are ready to fight and fit to win is a complex business. The publication of the General Accounting Office's reports discussed today should assist our mutual goal of improving the Army's stewardship of our inventory resources. The Army looks forward to the continued support of the House Armed Services Committee.

Sir, this concludes my statement. I will be happy to respond to any questions.

Mr. RAY. Thank you, General Murray. That was very good testimony, and we appreciate it very much.

I am going to ask you some of Mr. Hutto's questions that he has prepared.

Your testimony mentions that the Army Materiel Command has a blue ribbon panel on provisioning, and from what I understand, their report is not yet completed.

Can you tell us what their charter is, any initial conclusions that they might have made, and can you send us a copy of their report when it is completed?

General MURRAY. Sir, with your permission, I will let Mr. Mills from the Army Materiel Command answer that.

Mr. MILLS. Yes. The charter is to take a total quality management review of the total provisioning process, from the inventories that we lay in at the wholesale level to the inventories that we initially distribute to the retail level, to how we program and buy the technical data we need to make the system run, with a thrust primarily toward an inventory policy that will ensure optimum readiness of our systems on the battlefield.

They are, in fact, meeting this week in Kentucky, and we do not have the preliminary results, but we will certainly send you a copy of the final report when it is are available.

Mr. RAY. The Army does not dispute the facts in the GAO report, and we wonder why, and how these problems developed without Army leadership being aware of them before GAO found them.

One specific example is to demonstrate how the system works and what are the inventory control points for buying the items ahead of time, and in some cases 3 years ahead of time.

Can you respond to that?

General MURRAY. Sir, that specific incident has many parts. That command receives some unprogrammed funds late in the year, and at that time, there was a great deal of emphasis on the obligation of the total allocated funds. The command adhered to that emphasis on obligations, and in order to obligate those funds did buy ahead significant quantities of materiel.

That situation has been corrected. As I mentioned in my opening statement, as soon as the situation was discovered, the corrective action was taken by Army Materiel Command.

Why was that not known at headquarters, Department of the Army? We have reports that monitor the obligation rates of the buying commands as it does the rest of the Army, but it does not tell us in which fiscal year those funds are being obligated.

So, we just do not have a report to headquarters, Department of the Army, that would have alerted us to that situation. That has, by the way, though been made a specific item of interest on the Army Materiel Command's assistance visits, reviews, and they review about three of those commands a year, and as well as their Inventory Control Effectiveness Teams, which visit the commands now, and I include that as a point of specific guidance.

Mr. RAY. The Chairman specifically wanted some items in the record about this that you might want to respond to, and I would just give to you what they are.

He would be interested in knowing the types of items being purchased currently, why and how Army policy was violated in this case, who in Army management should have prevented this practice, and who in Army management should have identified this problem, and who in Army management was held responsible for violating Army regulations, and what has happened to them, and what penalties have they incurred for these violations.

Now, if you want to respond to any of those verbally, you can, or if you would prefer to just specifically explain them in the record, that will be okay.

[The following information was received for the record:]

The types of items purchased were major assemblies and secondary items, such as engines, axles, and transmissions, for combat track and wheeled vehicles. The Army policy that was violated was Army Regulation 710-1. This regulation limits the on-order quantities for secondary items to the requirements objective.

The command received ground force operating tempo plus-ups to their procurement appropriation program at mid-year in both fiscal years 1987 and 1988. Accordingly, future year requirements were drawn into those fiscal years. Since field requirements did not materialize as anticipated, an imbalance of requirements to procurement due-in occurred.

National Inventory Control Point item managers and those in their supervisory chain would be aware when their projected procurements exceed the requirements objective. No attempt was made to fix responsibility, in this case, because of the manner in which this buy-ahead took place. The money was provided at mid-year and the procurement actions were, for all intents, in good faith, to use the money for items for which a reasonable manager could project outyear requirements.

This practice was discontinued in fiscal year 1989 and appropriate reductions in the command's funding have been made.

To preclude this situation from recurring the command's management has issued instructions on the initiation of procurement for secondary items. Additionally, they have submitted recommendations to HQ, AMC for approval which would further prohibit the expenditure of procurement appropriated funds during the execution year for any future year requirements without appropriate authorized approval. Also this area is being included in AMC Staff Assistance Visits.

Mr. **Ray**. All right, sir. GAO states that a major impediment to solving some of these problems is the mind set of some field commanders who believe that more inventory is better and there can be no incentives to turn excesses back into the system.

Can you recommend ways to put incentives into the system so that excess stocks can be identified and redistributed?

General **Murray**. Mr. Davis or Mr. Lane commented on the credit they received. Depending on the stock availability in the wholesale system, the units turning in excess do receive some monetary credit. It goes from zero to a 100 percent determined based on stock availability.

In Europe, in order to incentivize the return of excesses, we established three European redistribution points which is one stop service for the units. This relieves them of the responsibilities for packaging and meeting customs requirements. This has turned out to be a very profitable way of doing returns.

Another incentive to get rid of excesses is our recent policy on ASL mobility. We direct now that the direct support—the main support battalions ASL must be mobile in two lifts and the ASL and the forward support battalion must be uploaded and mobile, 100 percent mobile, in one lift. To meet those gates, they are going to have to get rid of the excess.

So, between the mobility requirements, the ease of turning into the European redistribution facilities, and the monetary credit, I think we have established proper incentives for the reduction of excesses.

Mr. RAY. During the testimony, in years past, we have learned from various people who have testified that particular excesses suffers—products sometimes—used products, valuable products, in borrowed land, in particular, just simply was destroyed. In some cases, buried.

Now, I do not know that this has occurred in many years, but we have safeguards to prevent that from happening in the field and in our worldwide operations now, I suppose.

General MURRAY. Yes, sir, we do have.

Mr. RAY. OK. Are there other questions?

Mr. Machtley, do you have any questions you would like to ask?

Mr. MACHTLEY. I am sorry that I missed the beginning of your testimony.

In your testimony, General, you indicated the Army is the best equipped force in the world. My observation and my experience of the military is that stockpiling develops from a mind set that when you need the part for the equipment, you are not going get it from the system, therefore, you better have it, because if you do not, you are going to pay. If the thing breaks down, you have to tell your commanding officer, I do not have it.

How are you going to change that mind set? How can you get the field commanders, the guys who are doing the stockpiling, to say we know we should get it because, in fact, that is still a good reason for stockpiling today?

General MURRAY. Well, I think that it is as legitimate today as it was in your military experience, sir. That is a mind set that says I need it when I need it and I cannot wait for it.

The only way to beat that is to improve the confidence in the supply system, to demonstrate that the supply system has the capability of providing the right part at the right time.

I think we have taken a lot of steps to do that. It is a matter of individual education of the officers. We have pre-command courses now for each level commander before they go to the field to take command of the unit. Those kinds of things are emphasized in their pre-command courses.

So, I think we have taken some legitimate and some very needed steps to improving the confidence in the supply system.

Mr. MACHTLEY. The second part of the question is that the danger of uneven inventory is if you have to call up your troops, some will have it and some will not. Those who have the excesses will not use it.

In a time of call-up, we had to lift three divisions. Would this system work or, as we say, let us scrap this system, let us go to the depots that have the surpluses, let us just forget this whole two-tiered system and let us get the equipment?

I mean, have we developed a system that is only going to work in peace time?

General MURRAY. No, sir. The Army supply system—the logistics system in the Army—is a go-to-war system. It is the one we use today and it is the one we will use tomorrow in combat and it will work.

We have—I have confidence in it, and I think the rest of the Army shares that confidence.

Mr. **Machtley**. How will you get the excesses transferred quickly then from those who have to those who need without having to go through a two-tiered process?

General **Murray**. The early deploying divisions will deploy to POMCUS, Preposition Materiel Configured Unit Sets. Their equipment is there and their PLLs and ASLs, their stocks of repair parts, are there. They would fly over with their individual weapons and some small unit equipment, fall in on that equipment, and be prepared to fight in a very short time.

This procedure is exercised every year in the Return of Forces to Germany (REFORGER) exercise. The equipment left behind, POMCUS Uncovered Residual Equipment, called PURE, is well documented and well accounted for. We have the procedures in place to redistribute the equipment left behind.

I am confident that we have a go-to-war system.

Mr. **Machtley**. For 10 days?

General **Murray**. No, sir, no. We can fight significantly longer than 10 days.

Mr. **Machtley**. Ten divisions?

General **Murray**. Ten divisions. We will not currently be able to meet the gate of ten divisions in 10 days. We are working very hard on meeting that objective. We understand that commitment to NATO. We do not believe we can meet ten and ten right now. There are several initiatives underway in the Army to do that.

Mr. **Machtley**. Thank you.

Mr. **Hutto**. Thank you, Mr. Machtley.

Mr. Bilbray.

Mr. **Bilbray**. Thank you.

Again, General, I am sorry, I missed the first part of your testimony. You may have covered this, but would you explain to me exactly how the inventory is carried down?

Do you have a—you do not have a master inventory that carries everything because of the number of items? What do you have, 400,000 items, alone you carry plus——

General **Murray**. The Army actually manages about 390,000 national stock numbered items, uses over 1.2 million individually identified items, but manages only 390,000 of those.

Mr. **Bilbray**. There is no central accounting? In other words, they are done by individual areas who know what they have, but there is no pyramid that takes everything up to a big computer in the sky that lets us know everything that is on hand, is that correct?

General **Murray**. That is correct, sir.

The inventory held by the Army Materiel Command in its depots is all on a central record. Then, once the item is issued to the retail system, in most cases, it loses visibility, but as I mentioned earlier, I think, sir, during your absence, there are two systems, Selected Items Management System-Expanded, called SIMS-X, currently running about 5,000 items. We hope to—we will expand that list to about 26,000 items within a year. Those are high dollar value readiness critical items.

Those are reported on a transactional basis. So, the item manager in Detroit, for example, knows that the unit in Germany has on—is required to have on hand so many and what it has on hand and what it has due in. So, those 5,000 growing to 26,000 items are known.

Mr. **Bilbray**. You are going to continue to try, I imagine, to increase that, or is that your goal the 26,000?

General **Murray**. Twenty-six is our next level. Once we reach that point, then we will continue to evaluate.

Mr. **Bilbray**. You are not going to get down to the point like Sears and Roebuck or a Wards where they actually record every package of screws virtually where they know where everything is?

General **Murray**. Sir, we find that not to be cost effective to manage to that level.

Mr. **Bilbray**. The other question I had, it was in the previous testimony and I was curious about it, comes out of Richard Davis' testimony, but it said, "The depot officials told us that it was cheaper for them to repair the unserviceable components than to purchase them from the supply system", and basically that may be true.

Is it because you have the surplus there that will not be used if somebody does not use it rather than repair it, or if it is cheaper to repair it? Should that not be figured into the system?

General **Murray**. It is generally cheaper to repair.

Mr. **Bilbray**. What he was saying is that the depots do not want them to do that. They want them to call upon their supplies and bring it down.

General **Murray**. Dave, would you like to respond?

Mr. **Mills**. Well, number one, the depots operate on an industrial fund, a centralized industrial fund. So, if a depot commander programs 30 man years to do a job, and all of a sudden, that job is cut to 2 man years because we are just going to replace it with a serviceable component, he has got 28 man years worth of work that he has funded in his program that is going to go into his overhead rates.

So, from a depot commander's perspective, he is left with a problem in doing that, and, 99 percent of the time, if you just figure how much it costs to fix something as opposed to replacing it with a serviceable item you can always put in a serviceable cheaper than you can fix the other.

Mr. **Bilbray**. So, we have got the worst of both worlds is what you are telling me.

Mr. **Mills**. Yes, and the test that General Murray talked about that we are going to finish in September, along with the GAO reports we are going to consider, will address the most cost effective approach. We do leave the depot commander with a problem, a legitimate problem, and from his perspective, he has a cost effectiveness issue. That needs to be addressed along with all of the other cost effectiveness considerations associated with how that impacts the inventory.

Mr. **Bilbray**. When does this program intend to be fully functional? You are up to 26,000 items with the whole program. A year? Two years?

General **Murray**. We will have the SIMS–X up to 26,000 within a year.

Mr. BILBRAY. So, next year before it will be—tell us how that is going then.

General MURRAY. Yes, sir.

Mr. BILBRAY. Thank you. I have no further questions.

Mr. HUTTO. OK. Thank you, Mr. Bilbray.

General Murray, it is good to see you. Mr. Mills.

Mr. MILLS. Mr. Chairman.

Mr. HUTTO. Sorry I had to be out. So, I may ask the questions that have already been asked.

The GAO believes that the Army can save $15 million in repair costs if serviceable assets in supply were used in the maintenance program.

Does not the Army already have such a policy and, if so, why are not the depots following it? What can be done to ensure that the policy is followed?

General MURRAY. We have talked about that a little bit, sir.

First off, let me put that $15 million in perspective. That is eight-tenths of 1 percent of the depot fiscal year 1989 funded depot program. So, it is not—where I come from, $15 million is a lot of money, but it is not large in comparison to the overall program.

We are running a test now of that system, which would use those assets, long supply assets, in depot maintenance programs. That test will be completed in September of this year. The results of that test, along with the GAO's findings, will be used then to determine the cost effectiveness of the program. If it proves to be cost effective, we will develop an implementation plan for it at that time.

You are right. We have a regulation on the books that says we are doing that. We are not. When this test is completed and analyzed, we will either get rid of the regulation that says we are doing it or we will begin to do that.

Mr. HUTTO. OK. Could you provide us with the report on the test?

General MURRAY. Yes, sir, certainly.

Mr. HUTTO. All right. If you would.

General Murray, GAO's testimony discusses a problem with the automatic return item system and the more than $1 billion in items that were returned to the depots under this program.

Discuss the system and what happened to the billion dollars in items that were returned.

General MURRAY. If I may take the second part of that question first, sir, of the $1 billion worth of items returned, better than $600 million worth of those depot level reparable items were to be returned to stock for reissue, repaired in depots or declared uneconomically repairable, based on maintenance expenditure limits.

[The following information was received for the record:]

The remaining $300 million of items were field level reparables. They did not have an established depot repair program. Eighty-five percent, or $255 million, of these items were returned to stock for reissue.

The automatic return items program is designed to facilitate the return of reparable items from the field to the depot. Items not on the automatic return items list must be offered or you must request disposition instructions, and this is done through a card process where the owning unit requests from the national inventory control point disposition instructions.

After review of the stock position of that item, disposition instructions are returned to the unit. It may be disposed of locally, repaired locally, or returned to a depot. This process takes on average 12 to 14 days.

For items on the automatic return list, that whole system is done away with and the unit, the holding unit knows to automatically return it to a depot and to which depot. So, it speeds up the return of items.

I think Mr. Davis in his testimony alluded to our freeze on the disposal of items and the retrograde of those items back to CONUS so that the disposal decisions could be made at higher levels, and that is what caused that build-up of unserviceable items in the depot.

But the program is designed to expedite the return.

Mr. HUTTO. The Standard Army Retail Supply System will provide corps level disability of the inventory items at the same time the Army is developing the Objective Supply System and Corps Asset Visibility System.

How do all these systems relate to one another in what they are attempting to do? How long have they been in development and what level of funding is being requested for each of these in fiscal year 1990?

General MURRAY. The Standard Army Retail Supply System, SARSS, began being fielded in 1985. The interim system was fielded in 1985. The objective system will be totally fielded throughout the Army by September 1993, is our projected date on that.

That provides visibility of items across the ASLs to the division, across the ASLs to the corps, and up to theater level. The Objective Supply System builds on the good, the better aspects of SARSS by taking that cross level or that asset visibility benefit.

The Objective Supply System places the asset balance files of the DS and GS units in the records of the wholesale system. Therefore, when the wholesale system receives a requisition for an item from Fort Hood, for example, because of its visibility of all of the assets at Fort Hood, it can go back and say, no, the item is at Fort Hood, Unit A issued to Unit B, and, therefore, utilizes excess currently at that installation and records the demand, but precludes an issue from the wholesale system.

That system has undergone a proof of principle, for a 60-day period, proved very effective. It is now in the prototype development stage at Fort Hood, TX. We expect that prototype development to take another 9 to 12 months. At that time, a review will be made to include a cost effectiveness analysis, and we will then, based on that review and cost effectiveness analysis, determine which aspects, if any, or all should be implemented Army-wide.

Our biggest concern right now is the fact that the Objective Supply System is very communication and automation dependent. We know it will work, we think it will work on CONUS installations. We are not that comfortable yet on how it would work in an overseas environment and particularly in a combat environment.

As to the dollars being programmed for those two systems, the life cycle cost for SARSS, the Standard Army Retail Supply

System, is in the neighborhood of $930 million. That will allow us to buy the software and hardware to do the software development and fielding costs.

The Objective Supply System costs us about $584 thousand for the proof of principle. The prototype development, we have programmed $4.5 million for that. We have not yet programmed the implementation costs for that.

The Corps Asset Visibility System is a unique system being developed in the fifth corps in Germany. It is a system developed by the fifth corps which basically is SARSS for the corps. It provides the corps commander and the corps support commander asset visibility across the ASLs to the corps.

We would not expect to expand and implement that system Army-wide because we feel SARSS and the objective supply system include the advantages of that system.

Mr. HUTTO. All right. Mr. Waters of our staff has a question.

Mr. WATERS. Thank you, Mr. Chairman.

During his testimony, General, Mr. Davis mentioned [1] the causes of excesses, and [b] items continue to be purchased.

We have not covered that today. We have been talking about visibility between the wholesale and retail level.

It seems to me there is a lack of communication between those—the latest configurations and the ICP.

General MURRAY. We have weapons systems. For example, a Lance missile has been in the system for better than 25 years. The Hawk missile has been in the system for better than 30 years. The technology contained in those weapons systems is no longer state of the art.

When the manufacturers of those items cease to produce that aged technology and move on, then we made life of type buys of those technologies, those items, because they were not going to be available any more.

So, some of your inventory is tied up in those kinds of things, where there is no longer a producer for those items. Maybe misworded perhaps in Mr. Davis' testimony, but we are in the throes of the largest modernization effort that our Armed Services have ever known.

We are introducing M-1 tanks, M-2 and M-3 fighting vehicles, new helicopter systems, but they are not displacing anything yet. When the M-1 tank goes to a unit in Europe, the M-60 A-3 tank that was previously held by that unit is transferred either to war reserves or to a reserve component here in CONUS.

We must then maintain both inventories. The repair parts necessary to support the M-1 tank in Europe and the repair parts necessary to support the M-60 tank here in CONUS.

So, much of our inventory is those kinds of items. We retain inventories of repair parts to support major items of equipment that have been sold to our allies through foreign military sales.

So, yes, we do have in our inventory things that are no longer being procured, but are still necessary for the support of systems still in our hands or in the hands of our allies.

Mr. WATERS. I thought his statement was that outdated items continue to be purchased. What you say is we have items in our inventory that we need to support some of the old weapons systems.

General MURRAY. Yes, sir, that is what I said.

Mr. WATERS. What he is saying is that the outdated items continue to be purchased.

General MURRAY. Sir, I have no knowledge of procurement of outdated or unneeded items.

Mr. WATERS. One other question, Mr. Chairman, if I might.

We have heard this morning about excess parts being retained at the various levels throughout the Army. Last year, or a few years ago, DOD changed their regulations so that performance ratings of personnel involved with inventory management would include factors so they could be rated on inventory management.

Has that been a tool to help manage these inventories because we have heard that a number of folks are violating the regulations, is what we are being told today?

General MURRAY. Sir, in fact, that proved to be counter-productive. The Army Materiel Command implemented that and put that in civilian performance appraisals, but it just did not work.

Why does it not work? Well, it does not work because there is no one person in charge of all of the nodes of the system. It is unfair to hold a warehouseman accountable for less than 90 percent inventory accuracy when he is only responsible for his little bit.

You might look at my performance appraisals, for example. I am responsible for writing supply and maintenance policy in the Army. So, everything that I am evaluated on is evaluated against that responsibility.

It is duplicative there, but the Army Materiel Command in its efforts found it to be counterproductive. The age-old saying is if you want somebody to report 90 percent and you pressure them strongly enough and put in their performance appraisals, they will report 90 percent, actual or factual or not.

Mr. WATERS. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Holton, do you have questions?

Mr. HOLTON. No, I do not.

Mr. HUTTO. Mr. Lancaster, have you had an opportunity to question General Murray?

Mr. LANCASTER. I have not.

Mr. HUTTO. OK. You are on.

Mr. LANCASTER. General Murray, in your testimony, you say that the GAO defines excess as the quantity of an item that is on hand and/or on order that exceeds the unit's authorized stockpile. Thus, it is possible to have excess on paper, so to speak, but not physically on hand.

You continue to say that the requisition objective, the amount authorized for these stocks, is 40 days for GAO, but that Army policy says that units may retain it for twice the requisition objective of certain low-cost repair parts.

Since there is this difference in definition, has there been any communication between the Army and the GAO to arrive at common ground on which to determine whether or not there is excess or surplus, or are we simply talking different languages and, therefore, depending on which language you are talking, you have an excess or you do not?

General MURRAY. There has been considerable communications between Mr. Davis and his auditors and myself and my personnel. We do have that dichotomy. They are very rigid about anything above the RO is excess. We have a policy and we believe it to be a viable policy that a unit may, in fact, keep up to twice the RO on low dollar consumable items, not reparables. For reparables, we hold to the RO.

We find it more economically effective to allow——

Mr. LANCASTER. Let me interrupt. I am not talking philosophy here. I am talking communications. Have you, in fact, had discussions with GAO to come up with a common definition?

I can see some justification for your definition. I can see some justification for their's, but they are different. What I am getting at is have you tried to arrive with GAO at a common standard by which to judge this?

General MURRAY. We have tried very hard to arrive at a common standard with GAO, and we have not yet succeeded in doing that.

Mr. LANCASTER. Your testimony echoes some of the same concerns pointed out by the GAO. In fact, some of the initiatives the Army has already begun to address these problems we are discussing here today.

In light of that fact, why would you not want to take the step of consolidating the two detached systems into one, which would certainly seem to be more efficient and responsive to any of these, or is this just another one of those turf battles that we hear a great deal about?

General MURRAY. I do not think it is a turf battle, sir. We have, as I pointed out earlier, several systems which provide connectivity between the two levels of the Army systems, SIMS–X and CBS–X being the two major ones.

We are moving to greater visibility. We are increasing the number of items in SIMS–X, as I mentioned, from about 4,500 to 26,000 lines. We are moving to a larger number of items covered by the Continuing Balance System-Expanded.

So, the inter-connectivity will become greater. Total inter-connectivity is a different matter. There is a lot of automation challenges to ensure that our information is timely enough to impact our requirements in other locations.

The economies of taking an item from Germany and bringing it back to Fort Hood to repair a tank must be considered. We have given the item manager at one time the capability to cancel requisitions based upon his asset visibility at the national level.

We found that that was not being applied uniformly. In fact, some very high priority requisitions were canceled erroneously. So, we stopped the business of canceling requisitions.

We will reinstitute that authority and responsibility when we have the automated links in place that ensures timely and accurate information. That——

Mr. LANCASTER. What you seem to say is not necessarily arguing against the policy, but, rather, saying that it would be difficult to achieve the objective. Is that——

General MURRAY. It is. It will be difficult, but we are moving toward greater inter-connectivity.

Mr. LANCASTER. But you still address whether or not it is a policy objection or simply you do not want to do it because it would be hard to do?

General MURRAY. Oh, I do not think I have ever said, sir, that we do not want to do it. It is not certainly a policy objection. It is a matter of implementing when we have the systems in effect which would allow us to implement.

I cannot state, however, that we will ever achieve 100 percent of the inter-connectivity desired by GAO.

Mr. LANCASTER. Have you looked at the Air Force system, which apparently has been successful in the integration system?

General MURRAY. We have looked at the Air Force system at some length. We like certain aspects of the Air Force system. Major difference between the Air Force system and the Army system is the dispersion. You would find the asset visibility at the national level in the Air Force extending to perhaps twenty-five fixed bases in Europe, for example.

The Army does not have twenty-five fixed bases. The Army has well over 200 direct support units that are going to be very mobile, moving across the continent of Europe in a war time environment. It is one thing to establish visibility to twenty-five fixed installations. It is another thing, it is another matter entirely, to establish national level visibility to 200 mobile DSUs.

It is a problem. It is not to say it is not the right system. It is just harder to do.

Mr. LANCASTER. The GAO has proposed the use of long supply items to replace unserviceable parts removed during overhauls.

You state that the Army has reservations about this because it would, in effect, swap serviceable and unserviceable assets.

Why would you not use serviceable items in an overhauled vehicle and then service the unserviceable engine which came out of the vehicle after its overhaul was completed? That would allow for speedier return of the item to the inventory and allow you then to service the unserviceable engine behind the scenes after the fact and after you had gotten a tank back in use.

General MURRAY. I mentioned previously, sir, I believe you were out of the room at the time, we are running a test of that system now. We are using the missile command. The missile commodities as the test vehicle for that. Test will be completed in September of this year.

At the end of that test, using the results of that test and the GAO findings and recommendations, we will make a decision at that time as to the cost effectiveness and whether to implement that system across the board.

I believe we have already stated that we would provide the results of that test for the record.

Mr. LANCASTER. I am sorry. I was not in the room.

General MURRAY. Yes, sir.

Mr. LANCASTER. There is still a lot of focus on Fort Hood because of the GAO's visits. You mentioned today that the deputy corps commander personally oversees excess management at depots.

While that is reassuring, what is the general rule of thumb for oversight of excess management at other depots? Who really watches over the shop, and do you expect that it will be necessary to raise the level of actual responsibility to bring about true change?

General MURRAY. It is the responsibility of the commander. The commander is responsible for everything his unit does or fails to do. I do not see us usurping that responsibility or that authority from commanders.

Greater emphasis from the upper leadership of the Army will be forthcoming. The personnel at Fort Hood, had identified that problem prior to the GAO's arrival. Had started taking steps to utilize and redistribute those asset excess items. No, sir, I do not see us raising the level.

Mr. LANCASTER. Well, perhaps not raising the level within the command structure, but raising the responsibility at the command level as has been done at Fort Hood.

Are you, in fact, going to require from other folks that kind of heightened responsibility or heightened oversight on the part of the commanders?

General MURRAY. We will certainly share the GAO findings at Fort Hood throughout the command structure of the Army, and we will encourage commanders to take on their own volition those same steps the command group at Fort Hood has taken.

Mr. LANCASTER. Mr. Ray, would you like a moment to collect your thoughts? I believe Mr. Holton has a question or two, if you would like for him to go ahead and ask those, or are you ready?

Mr. RAY. No. Please proceed.

Mr. HOLTON. General, I would like you to present several things for the record.

One is the Army study that looked into the causes of excesses. You said there were thirty-one recommendations. We would like to know if you would submit those for the record, what the recommendations were, and which ones you adopted and why you did not adopt the other ones.

General MURRAY. We will provide that for the record.

[The following information was received for the record:]

The following recommendations resulted from the Army's study on excess generation. Items identified with an asterisk were adopted. Following the listing is an explanation why specific recommendations were not adopted.

1. By policy, limit Prescribed Load List (PLL) stockage to specific lines and quantities prescribed by the Army and standardize PLLs for like units. These should not be modified more frequently than once each year.

*2. Enforce Stockage List Code (SLC) "M", directing mandatory stockage of parts, ceiling of 5 percent of SLC "Q", demand supported lines on the Authorized Stockage List (ASL) or eliminate the 5 percent rule. This recommendation was combined with #7 and #14.

3. Change the quarterly recalculation of Direct Support Unit Standard Supply System (DS4) requisition objective (RO) to annual. Base stockage criteria on 24 months of demand history rather than 12 months.

*4. Review the ASL change list report critically to identify steps to reduce the size and manual actions required by operators. Automate as many steps as possible. Combine with #5.

*5. Stratify the DS4 ASL change list report by type of action to facilitate manager review. Combine with #4.

6. Stock initial provisioning items (Stockage List Code "P") in the area oriented depot (AOD) until qualified for stockage by demand criteria.

*7. Eliminate discretionary stockage at the ASL and PLL level. Combine with #2 and #4.

*8. Stock parts for programmed maintenance at the AOD in reserved accounts and release them in 60-day increments to meet actual repair schedules.

*9. Take steps to stabilize intermediate General Support (GS) level programmed maintenance.

*10. Return residual parts to the wholesale system when maintenance programs are completed.

*11. Maintain transaction history record in DS4 Supply Support Activities (where parts are stocked) in a machine processable form and retain for a two year history.

12. Develop a system for recording history of Stockage List Code (SLC) changes.

*13. Develop a computer based diagnostic system designed to accept automated files from the Standard Army Retail Supply System (SARSS), and evaluating a variety of conditions present in that activity, producing a meaningful profile focusing attention on areas of weakness and potential problems. Combine with #17.

*14. Develop a system to automatically excess Stockage List Code "L" items, non-demand support essential parts (ERPSL) and other inappropriately coded items from the ASLs. Combine with #2 and #7.

*15. Build into the DS4 edit process, parameters to block requisitions that exceed a prescribed percentage of the requisition objective for ASL items and a specific dollar amount for Nonstockage List (NSL) items.

*16. Automate update of the DS4 Document History File (DHF) when a cancellation confirmation is received, whichever is first.

*17. Develop a summary report stratifying ASL lines and stockage by SLC. Combine with #13.

*18. Modify bottoms up reconciliation pseudoreceipt field procedures to treat a pseudoreceipt as a receipt for ASL items, not as a due-in cancellation as presently done. There should be an inventory conducted to reconcile stocks on hand with recorded quantities followed by causative research where indicated. Combine with #25.

*19. Modify bottoms up reconciliation procedures to include pseudoreceipts as unmatched records to accurately reflect the fact that receipts are not being processed and to attract management attention to the problem.

*20. Eliminate back orders at the wholesale level from order ship time calculations. Calculate order ship time for each SSA on annual basis, based on the average Air Line-of-Communication (ALOC) order ship time for the prior year, eliminating back orders. Use the results as the order ship time parameter and discontinue individual line item order ship times.

*21. Further research the apparent error, identified in this report, in calculation of an RO for items to be deleted from the DS4 ASL.

*22. Adopt procedures to update price information in the Availability Balance File (ABF) of DS4 prior to run of the ASL update cycle. Include in management reports a measure of missing and zero prices as a tool to assist managers in mitigating this problem.

*23. Take steps to assure that National Inventory Control Points (NICPs) do not prematurely drop a National Item Identification Number (NIIN) from a family of NIINs and substitute for terminal end items. The NIIN must remain on the catalog until the end item no longer is in the Army inventory.

*24. Develop DS4 system logic that will automate the requisition objective change when a new preferred item is broadcast in the Order of Use File (OUF).

*25. Initiate a program emphasizing the importance of processing all receipts at the Direct Support Unit (DSU) and include provisions for monitoring and reporting all shipments received that are not posted to accountable records. Enforce regulations governing Discrepancies in Shipments and Reports of Survey where property is missing or unaccounted for. Combine with #18.

26. Modify DS4 software to issue on-hand stock for Non Stockage List (NSL) items when a due-in and due-out exist. Cancel the due-in for the issued stock.

*27. Identify cause of errors in DS4 reports, as identified in the study, and make the necessary corrections on a priority basis.

*28. Modify the DS4 system to remove the capability of local operators to change system parameters.

*29. Take steps to assure that new supply systems currently under development, are not fielded until all approved changes and corrections identified in the study are made.

30. Continue efforts to facilitate turn-in of excesses but discontinue giving financial credit for excess turn-ins.

*31. Review training programs to assure that proper emphasis and testing is accorded areas important to management of PLL and ASL stocks; such as ASL updates, management reports and manual requirements.

(* indicates recommendation was adopted)

Reasons for recommendations not being adopted are provided in the following paragraphs.

Recommendation one not adopted because it would restrict commanders ability to adjust for climatic condition variations and mission uniqueness. Portion of this recommendation is already in policy. Units are required to stock items included in a Mandatory Parts List (MPL) as a major element of the unit's PLL. MPL parts are identified as those required to sustain unit operations in combat until resupply can be established.

Recommendation three was adopted in part. Twenty-four months is the base calculation timeframe to stabilize demands with seasonal fluctuations. Portion not adopted was to change to annual recomputation. It was not adopted because of need to keep requisitioning objectives current and magnitude of workload on managers stable. Annual effort would be of a magnitude that would be unmanageable.

Recommendation six was not adopted because it was determined that need exists to continue to provide immediate support for provisioning items at unit where equpment is fielded. Repair parts stocked for initial provisioning are predicted to become demand supported in time.

Recommendation eight was adopted in part by reducing quantity stocked in repair facility to sixty days plus one order ship time (OST). Repair parts would be at an Army Area Oriented Depot but not placed in reserved accounts so they would be accessible to all requisitioners.

Recommendation twelve was not adopted because DS4 and policy were changed to provide guidance on how SLCs would be used. By eliminating certain SLCs and modifying use of others it was determined that this recommendation was no longer relevant.

Recommendation twenty-six was not adopted for DS4 because of the lack of file memory in the system. Cost to procure additional DS4 hardware would be excessive for a system that is being phased out. Process is contained in the Standard Army Retail Supply System (SARSS), which is replacement for the DS4 system.

Recommendation thirty was not adopted because of the positive impact of incentive. Turn in of items excess to unit needs is enhanced by providing credit to customers. The process allows units to remain within financial guidelines established by their higher headquarters.

Mr. HOLTON. The second thing is we are talking about a number of ADP systems today, and in addition to the major ones we are talking about, there are local bases that are developing their own systems of identified excesses and getting visibility of those excesses.

I would like you to submit for the record what all these systems are, who is developing them, what the costs are for developing them, and how you plan to tie all these together in the mid-1990s or whenever, what the Army's plan is to tie not only the local ones, but also the ones that are Army-wide, how they all tie together. If you would submit that for the record, and probably we need to have a briefing on it to explain what you are going to submit for the record, I think.

All right?

General MURRAY. We will be happy to arrange that.

[The following information was received for the record:]

I am aware of three locally developed programs which provide asset visibility and the capability to redistribute materiel. Two programs were developed in USAREUR - the Corps Asset Visibility (CAV) System and the Theater Critical Asset Visibility (TCAV) Program. At Ft Hood, a similar program to the CAV system was developed. In each case, the development costs were minimal. The programs consist of asset visibility files, loaded on a personal computer or mainframe, that compile asset data from supported units. This asset data is used to make redistribution decisions. The process is management intensive since it is accomplished off-line and requires manual processing of redistribution actions.

The Standard Army Retail Supply System (SARSS) will provide automated, on-line asset visibility and redistribution capability at the retail level. It is being developed by the Army Logistics Center. The eight year life cycle cost for SARSS is $926 million.

The Selected Item Management System - Expanded (SIMS-X) provides wholesale managers with Army-wide asset visibility of selected high dollar repair parts. Each transaction affecting asset balances is automatically generated by retail supply systems and forwarded to the wholesale manager. The Army Logistics Center has responsibility for software design of SIMS-X in the retail automated systems. The Central Systems Design Activity, an Army Materiel Command activity, has software design responsibility at the wholesale level. The design and implementation costs for SIMS-X in both the retail and wholesale automated systems are not separately identified. They are imbedded in the overall sustainment costs for each automated system.

The Objective Supply System (OSS) is a new Army program aimed at streamlining the supply system, reducing pipeline investment, and minimizing the administrative burden on our soldiers. The proof of principle test conducted from October to December 1988 cost $584,000. Funds in the amount of $4.5 million are programmed for continued prototype development and testing. Development and testing of OSS has been a joint effort by the Deputy Chief of Staff for Logistics, Department of the Army, the Army Materiel Command, and the Army Logistics Center.

Integration responsibility for these asset visibility systems is assigned to the Deputy Chief of Staff for Logistics. The lash-up of these visibility and redistribution systems is straight forward. The fielding of SARSS will eliminate the need for locally developed asset visibility systems. The capabilities designed in SARSS are automated, on-line, and exceed the capabilities of the local programs. SIMS-X reporting is imbedded in SARSS and requires no further integration. As discussed, OSS is undergoing further prototype development and testing. A decision on incorporating OSS in the Army's Standard Army Management Information Systems (STAMISs) will be made after testing and evaluation is completed later this year. The early participation of the Army's primary logistics design activities, the Logistics Center and Central Systems Design Activity, will assist in the integration of OSS in our STAMISs if the decision is made to proceed.

Mr. HOLTON. Thank you.

I would like to talk about some of the numbers that are being thrown around today. We are talking about 29 percent of Army inventory that is called inapplicable?

General MURRAY. Yes.

Mr. HOLTON. Other people might call it long supply or excess? I think you said—what—let us start with what does that 29 percent equate to in terms of dollars? What is 30 percent of your total Army inventory?

Mr. MILLS. Sir, the 29 percent equates to $3.5 billion.

Mr. HOLTON. The 29 percent equates to $3.?

Mr. MILLS. $3.5 billion.

Mr. HOLTON. $3.5 billion.

Mr. MILLS. Right.

Mr. HOLTON. Before, you said about 50 percent of that will eventually be used for something else.

Mr. MILLS. That is correct. There is—GAO——

Mr. HOLTON. Will develop some kind of use for about 50 percent.

Mr. MILLS. Yes, sir. Half of that is held in what is called economic retention, and economic retention is, in fact, a demand based inventory level. It is based on the demands that we receive, but the fact that we have got assets that fully satisfy our authorized acquisition objective, but we have assets over and above that, and it says we have demand. It is cheaper to keep those assets, than throw them away because we are going to use them. They will draw down.

So half of that is in that economic retention, which is, in fact, a demand based determination.

Mr. HOLTON. OK. The other almost two billion, what is that?

Mr. MILLS. Part of it, sir, is 1.6 billion is in contingency retention. That includes things like Sergeant York assets held since the decision was made to not proceed with Sergeant York, that is—the Divad gun.

Mr. HOLTON. I understand the Divad gun. We are retaining parts for the Divad gun?

Mr. MILLS. Sir, they have not been disposed of. Sir, they have been held and been reviewed for application within the Department of Defense. For instance, on Sergeant York, there are some of the high cost components of Sergeant York that the Air Force is now going to use for some of their applications, and we will give those assets or sell them, I am not sure how the finances are worked out, but those assets are going to the Air Force. They are part of that 1.6 billion.

We have the old Sheridan reconnaissance vehicle that we use out in the National Training Center and we have a couple of other minor applications and we keep all the parts to support that Sheridan. The M-42 duster, goers, jeeps, etc., etc. The items are still used in the Army somewhere for some application, and we are retaining those assets to keep those fleets going without having to go out and buy more parts.

We will disassemble the engines when we need parts or we will do whatever, and that is part of 1.6 million of the balance. The rest of it is assets that we hold based on is a computer determination that says the end item will be in use somewhere in the Army for at least 5 more years. That is what the balance of what is held. It is just a numeric level that says till we phase the end item out, we are going to keep these assets, and that is what all those assets are.

Mr. HOLTON. I think I understand.

Mr. MILLS. All right, sir.

Mr. HOLTON. Although I am not sure.

If you would provide for the record also, maybe we can have a discussion over that.

Mr. MILLS. Certainly can.

[The following information was received for the record:]

There are three retention levels approved for above the Approved Force Acquisition Objective (AFAO). These are (1) Economic Retention Stock, (2) Contingency retention Stock, and (3) Numeric Retention Stock. Economic Retention Stock is that quantity determined to be more economical to retain for future peacetime issues instead of replacement by procurement. It is categorized as demand-based retention stock. Items in this category must have a reasonably predictable demand rate, and a cost to hold less than the future cost to procure.

Contingency Retention Stock is stock for which there is no predictable demand or quantifiable peacetime requirement. This stock would normally be allocated as potential excess stock, but specific considerations or potential use in contingencies justify retention. Examples of special considerations are assets retained to meet potential military contingencies for U.S. Forces, assets retained in expectation of foreign military demand not covered by Cooperative Logistics Supply Support Agreements, and/or special considerations involving non-military contingencies (that is, civil emergencies or natural disaster relief).

Numeric Retention Stock allows retention based on special management decisions. This recognizes unquantifiable economic reasons, potential use, market availability, weapon system application or storage capacity.

Mr. HOLTON. The final numbers I want to talk about are the $1 billion that were returned under the ASI Program, is that the right acronym?

General MURRAY. ARI.

Mr. HOLTON. ARI. Could you talk about that a little bit more, General? You said $600 million of that—what did you say? Give me an explanation.

General MURRAY. I said the $600 million of that would either be repaired or disposed of because it was determined upon inspection to be uneconomic or repairable. For every item that we repair, we have a maintenance expenditure limit. Maintenance expenditure limits is a monetary value based on the age and condition of the item to be repaired.

Mr. HOLTON. If these items had stayed at the base level or where they were supposed to have been repaired in the first place, would they have been repaired or would they have gone through this analysis, also?

General MURRAY. They would have gone through this analysis, also.

Mr. HOLTON. OK. So, we are doing this analysis at a higher level?

General MURRAY. Yes, that is correct.

Mr. HOLTON. OK. What about the other $400 million?

General MURRAY. Will be disposed of.

Mr. HOLTON. Why?

General MURRAY. They were returned during that era of the Property Disposal Office (PDO) freeze. They were returned back to us, to these depots, so that a disposal decision could be made at a centralized and higher level, and they meet disposal criteria. We just did not want them disposed of in the field.

Mr. **Holton**. Because of the problems we have with the disposal?

General **Murray**. Yes.

Mr. **Holton**. OK. Thank you, Mr. Chairman.

Mr. **Lancaster**. Mr. Ray.

Mr. **Ray**. Yes, sir?

Mr. **Lancaster**. Would you like to ask questions?

Mr. **Ray**. Yes, sir.

Thank you, Mr. Chairman.

General Murray, do the POMCUS sites come under your jurisdiction, the storage that we have for pre-positioned stocks?

General **Murray**. Yes, sir.

Mr. **Ray**. How many of those sites—that is not classified, I do not believe. Can you talk about it in open session? How many sites do we have?

General **Murray**. Sir, I believe the number is seventeen sites.

Mr. **Ray**. Seventeen. OK, sir. What are we doing? Are we continuing to rotate up to eight or use some of the material in those sites?

General **Murray**. Oh, yes, sir. The equipment contained in those POMCUS sites is exercised every year during the annual reforger exercise. When the units deploy from CONUS, Fort Riley, Fort Ord, etc., they move to those POMCUS sites, draw that equipment, inventory it, fuel it and move out and use that exactly as they would in a war time scenario.

When the equipment is returned, it is run through a maintenance cycle and returned to its storage.

Mr. **Ray**. OK. Can you, for the record, explain—take one site and explain generally what would be in that site, not in detail, but just in general terms.

General **Murray**. The equipment in a site are the major items of equipment and they mirror the equipment authorizations for the unit at Fort Riley, KS, for example.

That unit at Fort Riley has M–1 tanks, and it has M–1 tanks in its POMCUS site, to include all communications equipment, ammunition is located nearby, fuel is located nearby, radios, machine guns. It is go to war equipment. The units move carrying only their individual weapons by plane to an airfield, departure airfield in Luxembourg or Belgium, perhaps, and then are trucked into their sites, draw their equipment, and move out.

So, the equipment in those sites mirrors exactly what the unit has at Fort Riley, KS.

Mr. **Ray**. I happened to visit one of those sites in Germany about 1986, I believe it was, and the director in charge of the site had a good bit of problem with showing me any kind of list of what was in the site.

Is it computerized now or——

General **Murray**. Yes, sir, it is.

Mr. **Ray**. So, you know what you have got there? You can update the——

General **Murray**. Yes, sir.

Mr. **Ray**. I see.

General **Murray**. The on-hand inventories are computerized. In addition to that, the unit at Fort Riley, KS, has a list of the items that are in their storage sites, and they know that they must bring any items from Riley that are necessary but not in that site.

Mr. **Ray**. Yes, sir. This may not come under your general jurisdiction, but what sort of protection do we have for those sites? Would you know offhand, or would I need to go to somebody else?

General **Murray**. They are guarded generally by contract local nationals. We do not have any specific air defense cover over them, but they are guarded against terrorist acts.

Mr. **Ray**. I see. We do have, I think, in those areas, we have contracts with maybe the Government or Germany, contractors to keep our equipment in repair and so forth?

General **Murray**. Yes, sir, we do.

Mr. **Ray**. OK. On another question, depot officials told GAO representatives that it was cheaper to repair unserviceable components than to purchase some of the sixty million in excess serviceable assets that were in the supply system.

They seem to have a problem with that. It has been always my concern that we ought to—if we have got something that is serviceable and can be repaired—repair it. But they make an issue out of the fact that it may be cheaper from the depot's perspective to just use new parts and perhaps discard those repairable exchangeables.

Would you comment on that?

General **Murray**. Sir, with your permission, I would like Mr. Mills to address that.

Mr. **Mills**. Sir, Mr. Bilbray had asked that question before.

Mr. **Ray**. Oh, I am sorry.

Mr. **Mills**. From the depot commander's perspective, they do have a problem. The depot's commanders are budgeted on a revolving fund, an industrial fund. If they program and budget to do 30 man years worth of work to repair an assembly, and then, all of a sudden, we say, no, we are not going to repair it, we are just going to replace it, and it takes him 2 man years to replace it, he is left with 28 man years worth of work that he has to pay people for for which he gets no productivity.

So, he loses money on that deal. When we finish our evaluation of what we want to do in that area, as part of it, we have to solve that problem, either by having a mechanism where we give him 28 more man years worth of work to replace that sort of thing.

From a depot commander's perspective, there is a problem to be solved, and that is what we are going to roll in to this study that we are doing.

Mr. **Lancaster**. Mr. Ray, would you yield?

Mr. **Ray**. Yes, I will.

Mr. **Lancaster**. For a follow-up on that?

If that is true, Mr. Mills, why cannot we just change the system? Why have you got to charge that 28 years? It would appear to me that there should be enough flexibility that why do you have to be hidebound to this 30 years and it only takes two and then you charge the twenty-eight?

Mr. **Mills**. Sir, you do not necessarily have to. I mean, we can decide to just take that 28 man years and, if there is not workload to replace that, to charge that against overhead. We could pass that along charge those decreased efficiencies and those man years as part of the AIF rates.

Now, whether in the grand scheme of things that is cost effective or not, we do not know, and that is what we are going to sort out as part of all of the dynamics of implementing a policy like that.

You do not need to change anything to do it, but the fact is you lose efficiency in the depot when you change the workload mix at the time of execution.

Mr. **Lancaster**. Thank you.

Mr. **Ray**. Well, this memo says there is $60 million in excess serviceable assets and, therefore, we should use those perhaps rather than to repair that because of the man hours, but let me ask this question.

Is the $60 million in excess, is some of that in war ready stocks? Put aside in the event of an emergency?

Mr. **Mills**. No, sir. By definition, if it is in the war reserves, it is in the applicable inventory. Not in the——

Mr. **Ray**. OK. Well, let me just say this. Do we have adequate war reserves in repair parts, kits, stocks and things of that nature in case of an emergency?

Mr. **Mills**. Not on all items, no, sir. We do not have a fully——

Mr. **Ray**. OK. Now, let me just switch over to one of your sister services. The Air Force, which, as near as we can tell, has about a billion dollars in exchangeable parts back in the depots, with not enough money to repair those, and they are rapidly depleting, as I understand it, maybe the war ready stocks and practically living on new parts.

Now, most people would believe that it is much easier and cheaper if you have the depot there and you have people in those depots to repair the exchangeables, and keep those new parts in reserve or not buy them if you get into an excessive type situation. That is why we have depots.

So, this is a turn-around, as I can understand, from the Navy and the Air Force, who believe, first of all, they ought to have the funds and they are asking for funds to repair exchangeables so they will not have to deplete the new stocks and new parts.

Can you comment on that?

General **Murray**. We agree with your assessment completely, sir.

The depot funds that we receive, we will, first of all, attempt to fund the repair of those secondary items 100 percent because they affect readiness today, and, so, we devote our primary resource of depot maintenance moneys to the repair of those exchangeables or secondary items.

Then, we program the repair of end items. So, we agree with your assessment and try to implement that.

Mr. **Ray**. I see. I want you to know the short dollar situation we face for the next decade, but we would be interested in kind of watching that situation and taking a good look at it.

A follow-up question here. The Army Materiel Command and its subordinate command, the Depot Systems Command, have opposing views on the use of Army stock-funded items and depot maintenance. AMC wants the stock fund reimbursed at full unit price while depot command wants the items issued free or at reduced prices.

Can you explain the ramifications of the differing views and how the Army will resolve them to get maximum use of these excess assets in its depot maintenance program? We might have already touched on that, but I wanted to put this question into the record to see if you could provide the answer.

General MURRAY. As you can appreciate, sir, the stock fund is a congressionally-mandated and established fund. It is a rotating fund. It has two things in its inventory. It has asset inventory and it has cash inventory.

When an item is issued from the stock fund, it is replenished, the purchase price of that is replenished in cash, the stock fund is replenished. If we were to take the depot systems command approach of free issues, then the stock fund would go broke, and we would have to then come back to Congress and ask for additional stock fund money.

By charging the acquisition value of that item when it is used at a depot maintenance program, then the stock fund is replenished and continues its rotation as it is planned to do.

Mr. RAY. Well, I certainly would not disagree with that at all. I think you are correct in that assessment.

Mr. Chairman, that is all the questions I have.

Mr. HUTTO. Thank you, Mr. Ray.

Mr. Waters, did you have a follow-up question?

Mr. WATERS. Just one question, Mr. Chairman, to follow up on the response you gave earlier, General, on the performance rating, and how it worked to your disadvantage in AMC because, I guess, you were trying to hold people responsible for duties they had no control over, at least as I understood your reply.

But this subcommittee has wrestled with inventories for a long period of time, even before I got here which was 9 years ago, and Mr. Daniel, the prior subcommittee chairman, put a lot of effort into getting that regulation implemented, and I do not quite understand your response.

It seems to me that in any personnel system, you only rate that individual on those factors to which he can be held responsible. What you are telling me is the person, let us say, at base level which may be sitting on excesses, which is against the Army regulations, you cannot hold him responsible for that?

General MURRAY. Oh, yes, and I did not mean to infer that we could not.

But maybe we were talking past one another, sir, but if the job description for this individual is inventory manager, then it seems redundant to put anything in there about you will be judged on your inventory management capability. By virtue of his job title, that is what he or she is evaluated for.

The whole report is based on their performances in inventory management. We do not have any one person, though, that is responsible for the entire inventory system. It is perfectly legitimate to hold a warehouseman responsible for those things in his warehouse and up the line.

AMC attempted it and reported back that it is counter productive. I cannot offer much more than that.

Dave, do you have anything?

Mr. **Waters**. Would that be a written report or could you submit something for the record on their experience with that personnel system?

General **Murray**. Yes, sir, we will.

[The following information was received for the record:]

General Murray. There will be no written report submitted on this issue. AMC's experience with these performance standards is summarized below.

The Army implemented DOD's guidance in July 1983. This guidance required that military and civilian performance appraisals include standards to measure inventory record accuracy and materiel accountability performance. A November 1984 Army Audit Agency report confirmed this action was taken.

Subsequent to this, we found that the guidance had been implemented beyond management levels. This encouraged improper avoidance of adjustments by the clerks to improve their individual performance. Other inventory personnel may also have been motivated to take similar improper actions in order to improve performance indicators and performance appraisals. Such implementation was counter-productive to the original DOD intent.

To correct our implementation, further guidance was provided in June 1988. Depots and inventory control points were directed to review all performance standards to ensure that the individual has control over the factors affecting performance, or that the performance standard is qualified to include only those factors over which the individual has control.

At the same time, specific performance indicators were identified which should be included, as a minimum, in routine command review and analysis at inventory control points and depots. Review and analysis provides local commanders with visibility of problem areas, and gives them the opportunity to correct problems caused by other areas, which impact on inventory accuracy.

Mr. **Waters**. Thank you, Mr. Chairman.

Mr. **Lancaster**. Mr. Ray.

Mr. **Ray**. Yes, sir.

General, do you have adequate spares as near as you can tell in the Army? Is there a shortage in any particular spare part area, tanks or guns or weapons systems of any kind?

General **Murray**. Sir, I think our spares, our peacetime spares, are adequately resourced today.

Now, in war reserve areas, as Mr. Mills spoke to a little earlier, there are shortages in given war reserve areas, yes, but our operating spares, I think, are adequately resourced.

We do not have equipment down today, not operative, for lack of spares.

Mr. **Ray**. Do you know of any instance where you have had to go to cannibalization on any equipment to keep some equipment running?

General **Murray**. We use on aircraft primarily control substitution to keep a given number of aircraft up. I think that is the area we find that most often in, but in these obsolete systems, and I use that word advisedly, like the Sheridan, for example, we do not procure any more Sheridans and we do not procure any more repair parts for the Sheridan.

We have a fleet of Sheridans out at the National Training Center, and we have one battalion of them at Fort Bragg. We have probably 900 Sheridans down at Anniston that we use to pull repair parts off to keep these two very small fleets in operation. We deliberately use cannibalization in that regard.

Mr. **Ray**. Well, I think that is good business, and that is certainly understandable, but there is no current equipment that you know of that you just absolutely are short on parts because of money that you cannot keep money without cannibalization?

General **Murray**. Sir, I would assure you that that is not the case.

Mr. **Ray**. OK. All right.

We have had a number of helicopter crashes lately for some reason. It seems like every week, there is something in the news.

You have not tied any of that to worn-out parts or not orderly replacement of parts or anything like that?

General **Murray**. No, sir, absolutely not.

Mr. **Ray**. Thank you, Mr. Chairman.

Mr. **Lancaster**. Thank you, Mr. Ray.

Mr. Holton, do you have a follow-up?

Mr. **Holton**. Thank you, Mr. Chairman.

General, what can we do right now to get a handle on the excesses? You have got problems in war reserves, but at the same time, you have got $50 million in excesses at Fort Hood.

How do we start getting a handle on—I do not think Fort Hood—just one base where it is happening. I do not think it would be the exception. I think it is probably the rule at a lot of bases.

So, how do you get a handle on those excesses and how do you start moving around so that the tanks in Germany are not down because they do not have the parts, so we can put them in to war reserve? How are we going to do that now? What can we do now?

General **Murray**. You are right. Fort Hood is not an exception. You will find some degree of excess at every installation. You will find some degree of shortages at every installation.

What can we do now? We can do what we are doing. That study that we had done on the causes of excess is a very valuable tool. We are implementing the recommendations of that study now. The automated—the changes to our automated systems will be in effect this summer as will our policy changes.

SARSS is the right way to go. The Objective Supply System may turn out to add additional benefits. I think that we have the fixes in reach. We do not have them in hand today. We have got them in reach, and we are moving to implement.

There are no easy solutions. The solutions lie in the increased use of automation, increased asset visibility, both horizontally and vertically in the system, and funds to move along with those changes.

Mr. **Holton**. What do we do with the $50 million in excess at Fort Hood?

General **Murray**. Redistribute it. We are redistributing first through this prototype development of the Objective Supply System. Eight percent of the requests that would normally have been come from Fort Hood are being held at Fort Hood and used to meet requirements of other units there.

The one division has turned in $6 million worth of excesses in the past 6 months. That is about four times what it was doing prior to this. So, there is an increased redistribution utilization of those assets.

Mr. Lane spoke to me prior to the hearing opening and he said he had gone back and looked at the second armored division specifically. He had noticed the excesses had moved from the forward support battalions to the main. That is a good move. That is movement of the excesses out of the hands of troops, on back in for greater redistribution.

I am sure if we were to go down there 2 months from now, he would find that that excess had moved from the main support battalion to the DOL. So, they are moving the excesses out at the same time they are attempting to reutilize those excesses to meet the needs of other units at Fort Hood.

I think we have the fixes in place and moving. There is not an easy fix and there is not a fix that can be implemented today.

The Army is in total agreement with the elimination of excesses, the need for that, and we are working very hard in that direction, and we appreciate GAO's help in that.

Mr. HOLTON. Thank you, Mr. Chairman.

Mr. LANCASTER. Mr. Ray, anything else?

Mr. RAY. I think the hearing is a very good one, General, and I certainly think it is a lot better to have excesses than to have a severe shortage, but I guess our concern is that you have got excesses in one place and a severe shortage somewhere else, and along that line, I would ask, what sort of a communication system are we using from Europe, or South Korea, or whatever when we are in pretty bad need of something in a rush?

Do we have some sort of a computer operation that we can do it very quickly or does it have——

General MURRAY. Oh, yes, sir. A requisition can come from either South Korea or Europe to the national inventory control point in a matter of a few hours.

Mr. RAY. OK. Then, what method would we use to send that to them?

General MURRAY. The requisition will come electronically. The materiel release order from the national inventory control point to the appropriate depot will be transmitted electronically. Depending on the urgency of the need, that part can be pulled. In fact, a high priority requisition, a requisition with an 02 priority, we give the depot 24 hours to have that item pulled, packed and ready for shipment. It can be lifted, and we routinely on a daily basis resupply both South Korea and Europe by air. Our air line of communication.

Mr. RAY. What does it go? Is it the Air Force that does that for you?

General MURRAY. It would flow from an Air Force base in CONUS to an Air Force base in either Korea, it is Osan, as an example, Ramstein and Rhinemein in Europe.

When it comes off the airplane, it then becomes the Army's responsibility. The Army transportation system moves it out to the unit.

Mr. RAY. So, you have not had any complaints or bog-downs in that area?

General MURRAY. No, sir.

Mr. RAY. Thank you.

General MURRAY. We watch on a routine systematic basis, we watch what we call the order ship time. How long it takes to get a request in and how long it takes to get a part out.

Mr. **Lancaster**. General Murray, Mr. Mills, thank you for your testimony.

This concludes today's hearing.

General **Murray**. Thank you very much, sir.

[Whereupon, at 11:36 a.m., the subcommittee was adjourned.]

[The following questions were submitted to be answered for the record:]

Mr. Hutto. Based on the testimony we have heard this morning, it is my understanding that the status of inventories at the base level is not known at the wholesale level, the inventory points.

Does this mean that the Inventory Control Effectiveness Reports compiled by DOD on a quarterly basis, which show hundreds of millions of dollars of gains and losses, do not contain the gains and losses experienced at the installation level?

General Murray. Yes, that is correct. The Army's Inventory Control Effectiveness (ICE) Report includes performance data for wholesale depot operations only.

Mr. Hutto. The Federal Managers Financial Integrity Act of 1982 requires federal officials to identify control and accounting weaknesses that can lead to fraud, waste, and abuse in government operations. The Act also requires officials to correct the weaknesses and to report annually to the Congress on the progress to correct these problems. Has the Army's inventory weaknesses been included in this report? Does the Army have an estimate on how much and how long it will take to correct the problems we are discussing today?

General Murray. The Army has submitted a materiel weakness to the Department of Defense on physical inventory control at the wholesale level each year since fiscal year 1986. A corrective action plan with milestones has been forwarded to DoD. In response to the Federal Managers Financial Integrity Act of 1982, the Army has developed Internal Control Checklists for conducting vulnerability assessments for fraud, waste, and abuse. The areas of stock control, inventory management and physical inventory controls are currently covered by Internal Control Checklists at both the retail and wholesale levels. In regards to the four reviews conducted by the General Accounting Office which we are discussing today, the Army has not submitted specific materiel weaknesses. When the Army receives the draft reports, we will determine whether materiel weaknesses are appropriate, and if so, they will be submitted.

Mr. Hutto. One of the findings in a GAO report issued last year was that the warehouses of DoD and the military departments were filled to capacity. Such a condition makes it very difficult to properly store and locate inventories.

What is the extent of the Army's problem in this connection and what has been done to correct the situation?

General Murray. The Army Materiel Command's general supply warehouses are filled above efficient operating levels. The accepted maximum occupancy level for the efficient operations of covered (warehouse) storage space is 85 percent. The Depot System Command Area Oriented Depots were at 97 percent occupancy as of 31 December 1988. The entire wholesale supply depot complex, including our least desirable storage locations, was 86 percent occupied.

The Army has been energetically working a two-pronged effort to ease our storage space problem:

First, we are constructing large automated distribution centers at Sharpe Army Depot in California and New Cumberland Army Depot in Pennsylvania that, when completed, will provide a substantial increase in our available covered storage capacity. A similar structure has also been approved for Red River Army Depot, and we hope to begin construction shortly. Sharpe's new distribution center began partial operation in March 1989; New Cumberland's will come on-line in the fourth quarter of Fiscal Year 1991.

Second, we are removing items from our inventory that are no longer needed. As specific end item phase out dates for U.S. and allied users are determined, assets in long supply are reported to the Defense Reutilization and Marketing Service (DRMS) for reissue or sale to other DoD/federal and commercial customers. Long supply assets are also offered as government furnished material (GFM) to production contractors via the Report of Assets in Long Supply. We also have cannibalization programs that support phase-down systems such as the M551 reconnaissance vehicle and the M880 truck. Also, we screen all unserviceable (Condition Code F) stocks without repair programs to identify those for which no current or projected requirement exists. We plan to offer these to DRMS for reutilization or sale.

Mr. Hutto. The European Redistribution Facility was established in 1987 to redistribute excess parts in theater and to expedite the return of those parts not needed to the National Inventory.

Where is this facility located, and about what is its cost?

Are most of the excess parts returned to the United States rather than being redistributed in theater?

What value has been allocated to the parts redistributed?

General Murray. The European Redistribution Facility's (ERF) mission is to serve USAREUR forward deployed units with one-stop turn in services for the redistribution of assets to appropriate sources of repair and in-theater stockage points or customers. The ERF operating plan consists of three sites -- ERF Main and two Corps level turn-in points.

a) ERF main, Nahbollenbach, was activated in May 1987. It performs storage and redistribution functions as well as being a turn-in point for the 21st SUPCOM and V Corps west of the Rhine.

b) ERF VII Corps, Boeblingen, activated in Jul 1986, is the turn in point for VII Corps units.

c) ERF V Corps, Grossauheim, is scheduled for activation 4Q89 upon completion of facility renovation. It will serve as turn-in point for V Corps east of the Rhine.

d) Fiscal Year 1989 funding for the ERF is $7.657M.

Of the $755M in redistributable assets which have been turned in to the ERF, fifty-four percent ($407M) were redistributed to meet theater requirements. Thirty-four percent ($254M) were returned to CONUS primarily to sources of repair. Twelve percent ($94M) were low dollar value, high-demand items held for redistribution within theater.

Mr. Hutto. Last year you testified before this subcommittee and said that the Services need stable funding to overcome these inventory problems.

Does the Army's fiscal year 1990-1991 funding request that has been transmitted to the Congress--the Reagan request--provide a proper level of funding? Asked in another way, has the Army staff and DoD supported the Army initiative to correct these problems.

General Murray. President Reagan's fiscal 1990/1991 budget increased funding for physical inventories by $15.3 million. This restores physical inventories to the fiscal year 1988 funded level, bringing the Army's total physical inventory program up to $37.3 million in fiscal year 1990. This reflects a seventy-one percent increase in real spending power from fiscal year 1989 to 1990. The Army is aggressively working with OSD to maintain this funding level.

Mr. Hutto. General Murray. GAO states that the inventory at the six National Inventory Control Points doubled from $6 to $12 billion from 1983 to 1988 while the inventory categorized as having "no forecasted demand" increased from $1 billion to $2.6 billion. Can you explain the reasons for this growth and any correlation you can see between the two patterns?

General Murray. The Army's efforts to modernize its forces and the more stringent retention policy implemented by DOD in 1985 are the two primary factors in inventory growth.

The Army's force modernization strategy includes the fielding of new weapon systems, and the displacement of older systems into the Reserve Component and war reserve. Some systems which are excess to Department of Defense requirements are being held for potential sale to foreign military customers. As a result of this force modernization strategy, the dollar value of the Army's inventory of major items has increased by more than 90% since 1983. Corresponding with this increase in major items, the Army experienced a commensurate increase in dollar value of secondary items, since both the new and old systems are being supported.

In 1985, Department of Defense Directive 4100.37 was changed to require the retention of assets that are serviceable or economically repairable, and have application to a weapon system in active use by U.S. forces. As a result, excess materiel that may have been sent to disposal before 1985 is now being retained. Much of this materiel applies to the displaced, older systems discussed above.

There is a correlation between the growth in total inventory and in inventory with "no forecasted demand," called inapplicable assets. First, since inapplicable assets are a part of total inventory, any increase in this category will be reflected in total inventory. Second, one of the primary causes of growth in each category is the Army's force modernization strategy. Requirements for the secondary items to support new systems are increasing as systems are fielded. The inapplicable inventory is also increasing due to lower OPTEMPO and/or in-use densities of the displaced, older systems. Secondary items for these older systems are being returned to wholesale depots in accordance with DOD policy, even though there may be no forecasted demand in the immediate future.

If we look beyond the budget year there will be forecasted demands for many of the items in long supply. These long supply assets will be issued to satisfy requirements that otherwise would have required new procurement.

Mr. Hutto. General Murray, GAO's testimony estimates that the value of the inventory carried at the installation level could be in the tens of billions of dollars. Is there any way to get a handle on the size of the inventory? Please review for us your findings at one installation that had $50 million in excess inventory.

General Murray. The "tens of billions of dollars" figure is not familiar. The Army does not maintain consolidated figures for the dollar value of the direct support/general support inventories. The dollar value of the repair parts pipeline is approximately $11 million dollars per day. Extended for a year, this translates into a little over $4 billion dollars. This means over a one year period of time, $4 billion worth of repair parts are shipped from the wholesale suppliers to Army customers. These parts are for replenishment of authorized stocks and for immediate application. Based on the annual value of Army demands and the pipeline figures, an estimate would be something less than $10 billion. For information, the size of a typical division authorized stockage list ranges from $8.7 million for a light infantry division to $35-$40 million for a mech infantry division or an armored division.

The figure GAO used was $40 million in one installation. This installation was visited in February. At that time discussions regarding excess were conducted with the installation's senior logisticians. Highlights of findings of that visit include the following information:

The installation has declared a war on excess and developed a plan to execute.

Units responsible for providing supply support have completed necessary inventories to establish baseline validity of asset posture.

One division stated it turned in over $6.5 million in excess in six months (Oct 88-Feb 89). This would represent an increase of four-fold over the previous six months.

Management goals, targets and review boards now focus on excess generation and measuring progress.

Senior leadership is actively involved in both the elimination of excess and redistribution of on hand assets.

The installation's utilization of the Objective Supply System has demonstrated improvements in the lateral asset distribution process and enabled units to move assets across the installation to where the parts are needed.

Forty-seven reparable lines accounted for fifty-two percent of the dollar value of excess. This is out of a total of over 13,000 lines with excess.

The most important improvement at the installation is the command involvement. This installation has taken action and demonstrates command involvement starting at the top.

Mr. Hutto. General Murray, one of the causes GAO cites for excess stocks is the poor estimating concerning failure rates. Please expand on this problem and what GAO feels can be done to correct it?

General Murray. Overestimating failure rates can result in initial excess stocks. The initial failure rate for a newly fielded item is based on engineering estimates from test data or actual data on similar or related systems. Since the initial value is an estimate, a deviation from actual field failure rates can occur. This deviation/margin for error is a well recognized entity within the maintenance engineering community. The initial failure rate is updated based on actual field demand data. Updates of the failure rate begin as soon as meaningful consumption data is received. AMC has recently implemented an automated system to track actual demands against the initial estimate. Deviations greater than plus or minus 10 percent are carefully reviewed and adjustments made to the failure rate when appropriate.

Mr. Hutto. General Murray, excess stocks are the result of the continued problem of changing equipment configurations during the fielding of equipment. Rather than produce one model of a piece of equipment, items are continually added and/or deleted, and so the Army, in effect, gets several different versions of the same piece of equipment. Then the supply system must attempt to stock parts for all of the variations. Please give us your observations on this problem and any potential solutions you see to reduce or minimize the problem.

General Murray. Management of configuration changes is one of the most difficult challenges for logisticians at all levels. It affects not just repair parts, but all facets of logistics--technical manuals, tools, test equipment, training, even facilities. As with most issues, there are positive and negative aspects. I think we'd all agree the upgrades to the M60 tank increased combat effectiveness and useful life. Likewise, the Army's Helicopter Improvement Program (AHIP) represents a sensible, cost effective approach to enhancing equipment capabilities and extending service life.

I've just mentioned two reasons for configuration changes - increasing equipment capabilities and extending service life. There are many others. Most prototype systems are hand built. When we go to manufacturing on the production line, changes are often required to the technical data package to allow for manufacturing processes and tolerances. Configuration changes may result from insertion of new technology, safety concerns, and to reduce operational and support costs.

The problem originates with uncontrolled change. There is a well defined process for managing configuration changes. Under this process, the engineers and the logisticians work closely together to ensure that only necessary changes are approved, after a thorough review and analysis for impact and cost. When properly used, the process works well. It is when the process is not followed that configuration management slips out of control. The key is instilling discipline and establishing controls in the system. In most weapon systems this is done.

When configuration changes do occur, emphasis is focused on minimizing the cost of obsolescence and the number of different configurations that must be supported. A key way to manage this process is the Product Improvement Program (PIP). PIPs are initiated to retrofit all of the old equipment, to include secondary items, to the new configuration. When the PIP program is completed, only the new configuration is supported. In many instances, the new part can be used in both the new and old equipment. The old part will no longer be procured, but on-hand stocks will be issued until they are depleted.

In summary, managing change is a difficult challenge. There are many valid reasons for configuration changes. When effectively managed, configuration changes can increase equipment capabilities, extend service life, and reduce support costs. The Army has a well defined process for controlling equipment design. The key is to establish firm controls of this process. One of the considerations in design changes is to minimize the cost of obsolescence and the number of different configurations of parts which must be stocked.

Mr. Hutto. General Murray, some members of the subcommittee were at one Army Commodity Command last week and they were told that the procurement regulations cause a good deal of the inventory problems in the Army. Specifically, if the Army wants to buy a generator and awards a contract, after competing it must then recompete for subsequent purchases with the potential effect being that on two buys the Army may wind up with generators from two different companies and, here is one part of the problem, then the Army has to stock replacement parts for both generators instead of just one standard item. Please give us your comments on this problem and any recommendations you may have to correct it?

General Murray. Inventory management problems can result from follow-on procurements being awarded to different contractors if the repair parts are not interchangeable and substitutable. To alleviate this problem, the Army has developed strategies, such as multi-year commitments to a competitively selected supplier, for items of materiel which are acquired off the shelf in order to minimize logistics systems duplications. We are currently in the process of making an award for the Enhanced Commercial Generators and the resultant contract will be a four year requirements contract which will be used to satisfy all DoD needs for the next four years. Prior to making any follow-on buys for a commercial or modified commercial item, a Total Life Cycle Cost of the item is analyzed and the results of this analysis are utilized in the contract award decision making process.

Mr. Hutto. General Murray, GAO's statement mentions the various Army systems being developed to provide greater visibility over excess items. Many of these systems appear to duplicate each other. How is the Army trying to eliminate it?

General Murray. As noted by the General Accounting Office, local commanders through their own initiative have developed programs to obtain asset visibility. In USAREUR, the Corps Asset Visibility (CAV) System provides Corps level visibility of assets. At the theater level, USAREUR has implemented the Theater Critical Asset Visibility System (TCAVS) to enhance theater management of critical items and provide asset visibility. A similiar program to the CAV system has been developed at Ft Hood.

As I mentioned in my opening statement, the Army is currently fielding the Standard Army Retail Supply System (SARSS). SARSS will provide the asset visibility across the division, the Corps and the theater which commanders are obtaining today with their local programs. The capability designed into SARSS far exceeds that provided by local unique programs. With the fielding of SARSS, the need for locally developed asset visibility programs will be eliminated.

Mr. Hutto. General Murray, do you believe that the Standard Army Retail Supply System will provide total asset visibility to ensure utilization of excess inventories and, if not, what changes would be necessary to do so?

General Murray. The design of the Standard Army Retail Supply System (SARSS) will provide lateral and vertical asset visibility across the division, the Corps, up to theater level. SARSS will incorporate real time reporting of excess inventories. These excess inventories will be used at each level to fill shortages before being reported to the wholesale level. A lateral search for redistributable excess assets will be accomplished before a requisition is passed to the next higher source of supply, where the lateral search will be repeated. If no redistributable assets are located, the requisition will be passed to the wholesale level for fill. The capabilities being incorporated into SARSS answer the concerns of the Army and this Committee for asset visibility and redistribution of excess materiel.

Mr. Hutto. General Murray, if the Army develops a system for total asset visibility, would the European Redistribution Facility still be needed and would there be offsetting savings by developing such a system?

General Murray. Fielding of the Standard Army Retail Supply System (SARSS) and optimizing its asset redistribution capabilities will hopefully eliminate the need for the European Redistribution Facility. The European Redistribution Facility provides U.S. Army forward deployed units with one-stop turn-in services. Given the capabilities of SARSS to identify assets for redistribution at the Division, Corps, and Theater level, and established supply procedures for the disposition of excess materiel, the European Redistribution Facility's workload should be eliminated. The offsetting savings will be the cost of operating the European Redistribution Facility which is $7.6 million in 1989.

Mr. Hutto. General Murray, Army policy allows units to retain twice the number of repair parts above its requisition objective, which is 45 days of supply. Please explain this policy and give us your views on why it is a valid objective given the cost to procure and maintain inventories that would be twice their required size.

General Murray. The Army policy which allows retention of stocks above the requisition objective is very specific and narrow in scope. Only items which are nonrepairable are eligible for retention above the requisition objective. These items are normally items which lose their identity through application, have comparatively low dollar cost and relatively high turn over. The philosophy behind this retention policy is that the cost to hold is less than the cost to return and reorder. The requisitioning objective is subject to fluctuation over relatively short time periods as the result of changes in training schedules and optempo increases/decreases. If the requisition objective does not increase, the stocks will attrit down to the Requisition Objective in about the same amount of time as it takes to return the supplies to the depot. The Army policy states action will be taken to ensure that the computation of the retention level assets does not include requisitions due in to the unit. The policy states quantitites on order above the Requisition Objective will be cancelled. This procedure precludes the Army from procuring an inventory which would be twice the required size. Furthermore, the Army wants to save transportation and handling costs. The Army is in compliance with Department of Defense Directive 4100.37, Retention and Transfer of Materiel Assets. This procedure represents a prudent use of resources.

TO REVIEW MILITARY QUALITY OF LIFE

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Wednesday, April 12, 1989.

The subcommittee met, pursuant to notice, at 2:15 p.m. in room 2212, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will please come to order.

The subcommittee is continually reminded by Defense witnesses that people are this Nation's most precious resource, for without people planes will not fly, tanks will not roll, and ships will not sail.

We recognize this all too important fact and have steadfastly adhered to the principle that our military personnel and their families are entitled to at least the same quality of life as provided to the citizens they are charged to defend.

The subcommittee has had an aggressive slate of hearings addressing the defense budget. We have been told of the importance of maintaining a ready force, highly trained, equipped and motivated. With regard to our military people, this guns-or-butter debate takes on a unique twist: an adequate quality of life for our military has a direct bearing upon national defense readiness.

We have greatly increased funding for training exercises and deployment. We are interested in hearing how this increased tempo has affected the families left behind and the morale of those who serve.

There is another side to the quality of life equation—troop morale. We hear that soldiers, sailors, airmen, and marines are most content when they can train under realistic conditions.

I hope that our witnesses can provide some insight as to the effect upon morale when flying hours, steaming days, tank miles and training ammunition must be curtailed.

We are also here today to examine the nature and extent of the relationship between quality of life and readiness. The impending draw down of the defense budget will accelerate the competition for limited operations and maintenance dollars. We are concerned about how quality of life programs will fare in this competition.

The subcommittee also is concerned about the well being of our people in overseas areas as we hear more and more reports of anti-

American sentiment being targeted at the military in some locations. If Americans must be forced to retreat to enclaves, we must be absolutely certain that their base support systems are adequate to provide for their everyday needs.

We have assembled whom I believe to be the experts in the quality of life area. Gen. Donald Jones and Barbara Pope have vast knowledge of the challenges and choices facing the Defense Department in this vital area. Also we hope to gain from the insight of the senior enlisted personnel of the armed forces who by the nature of their positions have their fingers on the pulse of the leadership and the dedicated service men and women in the field.

So I look forward to this dialogue and without objection I will place in the record a statement by our ranking member, Mr. Kasich, unless Mr. Hefley has a statement he would like to make at this time.

Mr. Hefley, do you have a statement?

Mr. HEFLEY. No, I do not, Mr. Chairman.

Mr. HUTTO. All right. Thank you, sir.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

Thank you, Mr. Chairman.

I commend you for conducting this hearing, and I am pleased that we will have the opportunity to examine this important area.

The all-volunteer force that is endorsed by the American people through the Congress brought forth an obligation. We now are faced with voluntary recruitment of a more sophisticated and educated population with high expectations. High retention means that more people are choosing to stay in the service longer. More are getting married and having families. Today, over 50 percent of the force is married, and nearly 70 percent of careerists are married.

All of this comes at a price—not only in dollars but in readiness capabilities. Military pay is way up. Costs for family and other community support services are escalating. Our military construction and facility repair requirements mount as housing competes for direct mission related facilities. Community and family support programs are rapidly coming into direct competition with direct readiness related items.

The subcommittee has heard from many Defense Department witnesses about the need for mission-essential training, fuel, and maintenance dollars. It is most beneficial that we hear of the other aspect of military readiness—our people programs. For these reasons, I look forward to today's discussion.

Mr. HUTTO. OK. We are delighted to have both of you here.

At the outset I guess I should make an excuse to General Jones, since he's an officer in my Sunday School class, and I've been absent a couple of Sundays and I want you to know that I was in my District back home, but I was there this last Sunday, General. What I want to ask is, where were you?

General JONES. I was studying for this.

Mr. HUTTO. All right. We will accept that.

We are delighted to have both of you, and you may proceed as you see fit.

STATEMENT OF LT. GEN. DONALD W. JONES, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY MANPOWER AND PERSONNEL POLICY

General JONES. Mr. Chairman, I would like to express my thanks to you and the members of this subcommittee for their support in allowing us the opportunity to appear and discuss quality of life programs.

We believe that our most important resource is our people, and we can acquire the very best equipment in the world, but if we do not have the quality people to operate and maintain it, then we are ineffective as a fighting force to defend this country.

We believe that the quality of life programs contribute to readiness. It is a known fact that quality of life programs are a major factor in a service member's decision to reenlist. When service members reenlist, the Department realizes a saving in recruiting costs, training costs, and retains experience and cohesion in our fighting forces, all resulting in an improved war-fighting capability. To date, we have been very successful in our recruiting efforts. There are, however, some trends, especially in the Army and the Navy, that cause us some concern. There has been a downward trend in the number of high school graduates who are entering military service and an increase in the number of male Category 4 soldiers and sailors entering our ranks. Our challenge, if we are to be successful, is that we must be able to compete successfully in the labor market for quality men and women while economic conditions are improving in our country.

Survey information from the youth in our Nation has repeatedly shown that basic compensation, family separations, housing, medical care, commissaries, exchanges, and recreational opportunities are all factors in their decision to remain in or leave the military service.

Currently our retention rates are good, and I think the senior enlisted members of each service will tell you that morale is high. However, as civilian job opportunities become more attractive, we will have to work harder to retain our quality people, which will include being innovative in finding ways to continue to sustain and improve our quality of life programs.

We never want to return to those conditions in the 1970s when recruit quality was low, and our non-commissioned officers were leaving our ranks en masse.

Our survey information also indicates that pay and compensation are primary factors in the decision to reenlist. In 1989 we received a pay increase of 4.3 percent. This was the first time in 7 years that the pay increase exceeded the private sector wage growth. At the present time, the gap between military pay and the private sector pay is 10.1 percent.

Our expected pay raises for 1991 are 3.6 and 3.2 percent, which are expected to be below the private sector wage growth so that gap will widen somewhat.

Now, another important part of our pay and compensation program is a variable housing allowance. We can pay service members up to 20 percent to supplement the Basic Allowance for Quarters to help meet housing expenses. This amount of VHA is paid by location, dependency status and pay grade. We attempt to equalize the amount of money a service member must pay above his allowances regardless of where he or she may live. On the average, the total housing allowance, BAQ and VHA pay, cannot exceed 85 percent of a member's actual expenses for housing. So a service member is expected to absorb about 15 percent of his total cost for housing out of his pocket.

This year he absorbed about 21½ percent. So we are about 6½ to 7 percent short of what we should be providing him for his pay and allowances.

Another factor in deciding to remain in the service is the availability of adequate housing. This is especially true in overseas areas because people often have few alternatives, and the quality of housing is often below the standards to which our people have become accustomed. Now, 75 percent of our officers and senior noncommissioned officers are married. We expect that trend to continue with an increase of about 7 percent in our dependents by the mid-1990s and a 16 percent increase in dependent school-age children.

So the requirement for family-related quality of life programs will continue to grow, so we need to find more innovative ways to operate them in a cost-effective manner.

Last year Congress approved an increase in the household goods weight allowance. We very much appreciate this committee's support of that. Prior to that, approximately 15 percent of our enlisted force and 19 percent of our officer force had to pay additional cost out of pocket to move their household goods. We think this increase that takes effect 1 July of this year will permit us to take care of 95 percent of those problems of overweight charge which members below the grade of colonel (06) when they move. We appreciate your support also in this effort.

The MWR programs are another factor which enhance morale. They improve retention and contribute to readiness. This subcommittee is very much aware of the importance of these programs, and we are working to implement the changes that are necessary to operate them in a more businesslike environment.

We are making significant progress in these programs, and we are having to make hard choices. We are working to make our revenue-generating activities more self-sufficient. There are, however, some remote and isolated bases, where our service members do not have access to off-base facilities, that will require appropriated funds in order to provide adequate support to the service members stationed there.

We have provided that list of those bases to the subcommittee for your review, and I understand it has just been returned to us. We are delighted with your support of those bases.

For the last 2 years Congress has imposed a cap on the amount of appropriated-fund support that could be provided to the MWR program. This has achieved its objective of reducing the amount of appropriated funds to revenue-generating activities. But we feel that the cap should be removed now in order to allow the commanders the flexibility that they need to do their jobs. We have run into some recent situations where we felt the ceilings were imposing undue restrictions on commanders, and we would like to see that removed.

A recent change in our program is the Class VI package store operations. All services are now operating package stores as part of their exchange system. We believe we can realize some cost savings in overhead and retain the same earnings rate.

We also have another quality of life program which we cherish. When we talk to our service members, it is one of the primary ones that they enjoy, and that is our commissary benefits. Currently we operate 424 commissaries at various locations around the world and provide a range of American-made products to service men and women worldwide. We are trying to improve the quality of service to our patrons and ensure that we allow them to realize an average of 25 percent savings in the cost of the goods that they purchase.

In 1987 the Defense Authorization Act directed DOD to modify our methods for allowing our selected Reserve people to shop in the commissaries. We are in the process of issuing Reserve commissary privilege cards to our Reserve personnel. We think that is well on track and will be a good solution for that situation.

Mr. Chairman, we are also well on the way to initiating a DOD study to look at the way we should operate our commissaries in the future. We intend to look at all aspects of commissary operations and hopefully find a road map for future operations.

Another benefit which service members rate high on the survey as reasons for remaining on active duty was medical care. Medical care at military medical treatment facilities is guaranteed for active-duty personnel and is available on a space available basis for all other authorized beneficiaries.

Those authorized beneficiaries who cannot be seen in medical treatment facilities, military medical treatment facilities, are entitled to treatment under the CHAMPUS program.

At present, we are experiencing a shortage of military physicians, nurses, and medical technicians. Some of these physicians are surgeons that we would need to treat patients wounded in combat. Congress has recently authorized us to pay a bonus up to $20,000 per year for a 4-year extension to retain a most critical medical professional staff. So we think we will be able to resolve some of the medical problems that we have through this bonus process.

There is one issue in the President's Budget that is causing us some concern, and that is the medical user fee. Under this plan, non-active-duty patients and dependents of active-duty members above the grade of E–4 would pay a fee for treatment in a medical treatment facility and for having a prescription filled.

OMB has directed the Department to design and implement a test program using the co-payment procedures. The money collected would go back into the program to improve medical care.

Approximately 50 percent of our married service members and their spouses are under 24 years of age, and 60 percent of the children are under 10 years of age. About 44 percent of the spouses are in the labor force. We have 50,000 active-duty single parents and 55,000 dual-military couples. All of these groups have requirements for child-care facilities.

We now operate 639 child-care facilities at 408 installations worldwide and have about 11,500 military spouses participating in family home day care programs. We have about 81,000 average daily attendance in our child development centers operating on installations and about 48,000 in the family home day care programs. We think we are only taking care of about half of our requirements.

So we need to continue to look for ways to increase our capacity. One option is with private financing under Title 10, U.S. Code, Section 2809. We have contracted for construction, management and operation of child development centers at the Pentagon and Tracy Depot, California and will continue to look for other innovative ways to expand our capacity.

We have a program in the Department to assist military spouses in seeking employment. We have a Hotline established on a test basis at Hampton Roads, Virginia. In the first 4 months of operation we received about 12,000 calls looking for information on jobs. We believe that we have helped about 20,000 military spouses get jobs through our spouse assistance process.

So, Mr. Chairman, we believe that our quality of life programs are sound, but we can always improve. We do need to be concerned with the perception that military benefits are being eroded, which will eventually have a negative impact on our ability to retain our quality people.

We recognize that the deficit is a major concern to all people, and we must continually look for efficiencies. We know that this subcommittee has been supportive, and we appreciate that support.

Taking care of our people so that we can retain a quality military force that can deter potential adversaries is our top priority.

Mr. Chairman, that completes my introductory remarks. I will have some later about some of the things that we are doing for the quality of life of the people living in Panama.

JOINT PREPARED STATEMENT OF GEN. DONALD W. JONES AND BARBARA SPYRIDON POPE

INTRODUCTION

Mr. Chairman, the Department of Defense welcomes this hearing demonstrating your commitment to and interest in the quality of life of military members and their families. We would also like to congratulate you on your appointment as chairman, and we look forward to continuing to work with the Committee in the future on quality of life and other readiness issues.

We believe the nation's most critical defense asset is people. We owe them good leadership not only in preparing them to execute their assigned duties, but also in providing for their welfare. The quality of military life is a crucial factor in our ability to recruit and retain the high quality, technically trained, and experienced personnel required by today's defense missions and weaponry.

Quality of life in the military starts with effective and enlightened leadership--people in charge, whether they are supervisors at the noncommissioned officer level or officers commanding installations, who recognize the importance of the people who work for them. This principle, albeit with different responsibilities, extends all the way to the top--the commanders in chief of the unified and specified commands, the Service Chiefs, the Secretary of Defense, the President, and the Congress. However, no matter where one is in the chain of responsibility, our nation's defense objectives can only be achieved effectively through committed Service members performing the mission every day wherever they are, and a leadership loyal to those people with a commitment to providing the type of living and work environment they need to thrive.

We mentioned previously that we have different responsibilities in providing for the welfare of military members depending on where we are in the leadership chain. At the local level, the commander of an installation sets the tone of how things go at that installation. More than anyone, he is able to address problems directly and promptly by listening to the people involved and focusing resources where they are needed. A solution to a problem may be as simple as ensuring the base gymnasium is open for shift workers late at night or providing for a summer day camp as an activity for dependent youths overseas. As we move up the chain, we begin to lose touch because we are removed from the daily situations that affect people as individuals. Responsibility for the welfare of the troops, however, increases dramatically. At this level, the responsibility is enormous, and our decisions can sometimes have disastrous results. We learned that from the unfavorable manpower conditions experienced in the late 1970s, when reductions in funding for essential quality of life programs proved to be false economies. As you recall, at that time we experienced the most serious manpower crisis in the history of the volunteer force--recruiting shortfalls, low recruit quality, and a mass exodus of skilled, trained noncommissioned officers. That situation has been reversed over the past several years. Pride and dignity have been restored to the military profession. The results show in improved retention and recruiting, with the best quality and the most capable force in our country's history.

Despite this high note, we believe our collective stewardship of the welfare of the force is at a crossroads. Resources are becoming more scarce, spanning the spectrum of quality of life--compensation, benefits, facilities improvements, morale, welfare, and recreation, and medical care. There are indications from the troops and commanders that perceptions are growing that benefits are being eroded once more. From our perspective, we must not let this happen. We must be firmly committed--the Department and the Congress in a partnership--to safeguarding the hard-won gains made in people programs to ensure that our investment continues to pay off in term of the improved readiness necessary to fulfill our national security mission worldwide. We must not forget the problems of the late 1970s.

The relationship between the quality of military life and our ability to recruit and retain people is well established. We simply have to be able to compete in the labor market for the number and quality of manpower we need. We have done very well in recent years, largely because of actions taken by the Congress to help make service life attractive to our youth. Although we finished FY 1988 with recruit quality near all-time highs, FY 1989 recruiting is much tougher. For example, the proportion of high school graduates among young men enlisting in the Army has declined from 90.5 percent through February of FY 1988 to 89.4 percent through February of

FY 1989. Between February, 1988, and February, 1989, enlistments of males in Category VI in the Army more than doubled from 4.9 percent to 13.2 percent, and in the Navy they have risen from 9.2 percent to 12.4 percent. We need to restore the value of recruiting incentives to keep quality from slipping further.

On the retention side, analysis of members' responses on both general surveys and exit surveys have shown repeatedly that in addition to issues such as basic compensation, family separation, and civilian job opportunities, quality of life concerns such as the availability and adequacy of housing, medical care, commissaries, exchanges, child care, and recreation facilities all have significant correlations with members' decisions to remain in or leave military service. Retention rates among certain highly skilled officer and enlisted specialties are already a cause for real concern, and are being addressed directly with new bonus programs or changes to existing programs. Even in these critical specialties, compensation is not the only factor that causes so many to choose to leave military service. Quality of life is a common theme.

Current overall retention rates are still good, and we believe the senior enlisted representatives appearing with us from the Services will tell you that morale in the Services is high. However, the reality is that military budgets will be shrinking at a time when the national economy is prospering. It is likely that civilian job opportunities will become relatively more attractive, and it would be naive to believe that the current overall retention rates can be sustained without continuing to improve the quality of military life.

Because more and more military members are married, maintaining the quality of military life also means improving the quality of family life. Today, three quarters of all officers and career enlisted personnel are married. Based on current trends, we expect the proportion of members with dependents to increase steadily through the mid 1990s. The number of dependents will increase by about 7 percent, and the number of school age dependents will increase by 16 percent.

It also means that the costs of family-related quality of life issues will go up. We must continue to find ways to address these needs cost-effectively. We would like briefly to address some of those issues. So that we can get a common understanding of issues and costs, we will focus on various representative programs that support our members and their families when the members are not directly involved in their day-to-day duties.

COMPENSATION

Basic compensation is probably the fundamental quality of life issue. The pay raise for FY 1989, which was effective January 1, increased basic pay and subsistence by 4.1 percent and BAQ by an average of 7 percent. It was the highest pay raise in 6 years, during which our raises have been capped below private sector wage growth. The raise means a small improvement in the pay situation overall, but cumulative military pay raises since FY 1982 are still behind private sector wage increases by 10.1 percent, as measured by the wage and salary component of the Employment Cost Index. Against the progress achieved last year, the outlook for 1989 and beyond is comparatively stark. The immediate concern with the budget deficit has produced considerable pressure to pursue every avenue to find savings. This has resulted in a budget that reflects a 3.6 percent pay raise. While we remain committed to closing the pay gap completely over the long run, the 3.6 percent raise essentially will only match inflation and, given a current civilian wage growth projection of 4.2 percent, will widen the gap somewhat between military and private sector pay.

We are also emphasizing the need to maintain the value of the variable housing allowance (VHA) for our members for whom we cannot provide government quarters. The VHA is a valuable part of the compensation package that assists our people in obtaining adequate housing in the United States in areas where housing costs are high. VHA is not designed to recompense Service members fully for their housing costs. Instead, it is an allowance that, when combined with the basic allowance for quarters (BAQ), should result in total housing allowances (THA) equal to 85 percent of average housing costs, by pay grade. Because BAQ has not kept pace with housing cost growth, and no housing cost growth was allowed for VHA funding in Fiscal Years 1987 and 1988, THA averaged only 77.5 percent of average housing costs in FY 1988. This meant that Service members paid, on average, 7.5 percent more of their housing costs out-of-pocket than intended. For FY 1989, THA will improve slightly to an average of 78.5 percent of housing costs, largely as a result of a 7 percent increase in BAQ and a 3.4 percent housing cost growth increase in VHA funding. We have requested VHA housing cost growth increases of 3.6 percent and 3.3 percent in FY 1990 and FY 1991, respectively, and removal of the ceiling on spending. While these increases will not further reduce out-of-pocket housing costs for Service members, they should keep them from going up.

HOUSING

A major issue for military families and unaccompanied personnel alike is housing. This is especially true overseas where our people have fewer housing alternatives than in the continental United States (CONUS). Off-post family housing overseas is typically expensive and hard to find. Most military family housing overseas is too often old, 1945 vintage, and in terms of size and state of repair, inadequate by current standards. We need to continue our programs to increase the availability of family quarters.

Inadequate, substandard, overcrowded bachelor housing--troop housing--is another serious problem that still affects the morale and performance of our people. We estimate that the improvements funded in the FY 1989 program will reduce the estimated deficit of troop housing to about 199,300. We urge the continued support of the Congress for improvements in bachelor housing.

Early last year we sent a report to the Chairman of the House Committee on Appropriations that concluded that there is a statistically significant correlation between military members' perceptions of the availability and quality of military facilities and their subsequent decisions to continue in service or to separate. We believe that this positive retention effect is only one of many reasons why the Department requires a vigorous program of investment in adequate housing and other facilities. We urge the continued support of the Congress in pursuing these improvements.

PCS

One of the reasons VHA is so important to us is that military requirements cause our people to make permanent change of station (PCS) moves more often than is common in other segments of the Federal government and the private sector, with attendant escalated housing costs. One of our major concerns is to offset the personal hardships caused by PCS moves. In its report on the National Defense Authorization Act for Fiscal Year 1987, the House Armed Services Committee requested that the Department test the use of contract relocation services to assist our members and their families making PCS moves. The Army, acting as executive agent for this effort, contracted for two relocation assistance centers (RACs) at Fort Lewis, Washington, and Fort Benning Georgia. Because the costs of this particular method of delivering services proved to be so high, the operational period of the test was reduced.

While the RACs were fully operational, more than 1,700 clients were served. A professional evaluation of the test is underway. Surveys have been mailed to members who used the RACs and the responses will be compared with those who did not use the services. The evaluation will be completed this summer and will provide data as a basis for policy and program recommendations to improve relocation services. In the interim, the Army plans to capitalize on the RAC effort and use in-house resources to continue expanding relocation assistance initiatives. The other Services plan to facilitate the use of realtor-based relocation operations and expand installation Family Center relocation assistance. As we implement these initiatives and review the results of our evaluation, we hope to find alternative ways to increase relocation services to our families further.

Last year the Congress authorized a substantial improvement in the PCS program for which we are extremely grateful. The maximum weight limit on the shipment of household goods was raised from 13,500 to 18,000 pounds, with the increases distributed through most grades and with separate tables for members with dependents and those without. About 15 percent of enlisted members and 19 percent of officers had been paying overweight charges that ranged from 30 percent to 174 percent of a month's basic pay. We are very appreciative of the strong support of the House Armed Services Committee for the new allowances, which will eliminate 95 percent of overweight charges for all members below the grade of O-6.

The Defense Manpower Data Center is also conducting a survey this year of more than 40,000 military personnel making PCS moves. The survey will provide uniform data for all Services showing the degree to which we do not now reimburse members for reasonable PCS expenses they are actually incurring. Similar surveys made by the Air Force suggest that we may be reimbursing our people for only 1 dollar of every 3 they actually spend. Our long-term objective is to reimburse military members for all reasonable and affordable expenses they incur when they move.

Burdensharing will be a subject of major interest in the 101st Congress. It is an operational and a quality of life issue of crucial importance to the Department. Maintaining large numbers of dependents overseas is expensive. However, it is our experience that accompanied tours overseas for members with families are the optimum way to meet our overseas requirements, increase morale, and enhance retention. There have been recent proposals to prohibit appropriated fund support for dependents overseas at any level above the number residing overseas at the end of FY 1987 (413,020), and to require implementation of personnel and deployment policies to reduce the number. As detailed in the report on dependents overseas the Department submitted to the Congress in June 1988, it is not appropriate to artificially limit the number of dependents overseas. Shorter overseas tours and increased unit rotations like those used by the Marine Corps in Okinawa have also been suggested. Such unit rotations are not suitable in other contexts where readiness requirements are different, and in areas now supported by accompanied tours, they would also be significantly more costly. Shortening overseas tours would also significantly increase PCS costs and family separation--one of the principal causes of dissatisfaction with military life--and would adversely affect retention. It has even been suggested that we only send single people overseas. This is clearly not possible, not only because it is not equitable, but because we simply have more requirements overseas in the middle and higher grades than we have single people. We do not think that shorter tours and more family separation are the answer. If burdensharing negotiations with our allies, or negotiations with potential adversaries, result in reductions in our overseas requirements, PCS assignment turbulence and costs could be correspondingly reduced. In the meantime, maintaining these dependents is an obligation the nation must assume as a basic requirement of deploying large numbers of troops overseas in peacetime.

MORALE, WELFARE AND RECREATION (MWR) PROGRAMS

Mr. Chairman, we do not have to relate to this subcommittee the importance of community support programs to the esprit de corps and readiness of our Armed Forces. The MWR Panel held hearings late last fall, and we know that you appreciate the challenges we face in managing a worldwide MWR program with over 12 million patrons and participants, over $10 billion in sales, and $4.2 billion in expenses exclusive of cost of goods.

Many significant changes are being made--changes in the way we manage, changes in the way we fund, and changes in program priorities and offerings--as we attempt to focus on customer-oriented, demand-driven activities that our people need and want.

Many of these changes have been initiated or directed by this subcommittee, and we think you will be pleased with the progress we are making. The reduction in appropriated fund (APF) support to revenue-generating activities such as clubs, bowling centers, and golf courses presents a difficult challenge to our Service managers. But, the hard choices are being made, and we are committed to a more business-like approach to the management of these activities. Our clubs, or open messes, are particularly affected--not only by changes to funding policies, but also by market forces, both on and off base, that attract younger people to fast food establishments, sports bars, ethnic and theme restaurants, and so forth. Certainly we must adapt our on-base clubs and other MWR activities in recognition of these market forces. We are also committed to pursuing arrangements, wherever feasible, with the private sector to provide MWR services. Here again, the object is to rationalize the MWR program by introducing market or market-like mechanisms to the delivery of these public services. An excellent example of government/private sector arrangements is our recent success with private financing for the construction and operation of child development centers.

We should add, Mr. Chairman, that there are still some military installations where, because of remoteness, isolation, or security concerns, our people do not have ready access to off-base facilities. At these locations we may not be able to operate revenue-generating MWR activities without some additional APF support. In report language, the committee has recognized our concerns, and we have submitted a proposed list of remote and isolated installations for your review.

For the last two fiscal years, the Congress has capped the amount of APF support that could be provided to the MWR program. For the current fiscal year, the Department is limited to $1,163,200,000. This cap has achieved the objective of ensuring reduced support to revenue-generating activities; and we are well on the way toward meeting the congressional milestones. In view of the Department's performance, the cap on APF support should be removed in FY 1990 in order to permit our commanders needed flexibility in meeting new program needs, particularly in child care and youth activities. Also, the cap is burdensome to administer and makes it more difficult to contend with contingencies, such as unprogrammed maintenance requirements. We believe that the overall funding limitations contained in appropriations acts provide adequate restraints on the

Department and that a sub-cap, if you will, on APF support for MWR programs is unnecessary. We ask for your support to remove this provision in the FY 1990 bill.

In accordance with congressional direction, all the Military Services are now operating package stores as an integral part of their military exchanges. We believe this will provide overhead savings and will sustain earnings at their current levels, even as we continue to stress responsible drinking policies. The Military Services are also exploring other realignments that might use the marketing and business expertise of the exchange services. As a result of efforts by this committee and its MWR Panel to approve fast food franchising, use of nationally recognized credit cards, and expansion of the CONUS stockage assortment, the exchange services have been able to take significant steps to improve the quality of Service life.

Patron privileges are of concern to us as a result of recent court decisions requiring the Department to bargain with our employees or their representatives regarding their use of military exchanges and other MWR activities. Such decisions impact on patronage policies throughout the Department in all of the United States, the District of Columbia, Guam, and the other U.S. territories and possessions. The recent court decisions inhibit our ability to achieve uniform and consistent policies throughout the Department.

We have long recognized the need to better manage our MWR civilian workforce which consists of both APF civil servants and nonappropriated fund (NAF) personnel. The Office of Management and Budget recently approved the Department's plan to establish portability for employees who move or are moved from one pay system to another. We regret that we were not able to meet your target date for submission of this plan to the Congress. However, we fully expect that our plan, along with the attendant legislative proposals, will be forwarded soon--in time for this legislative session.

At the hearing held by the MWR Panel of this subcommittee in September 1988, there was a good deal of discussion concerning the need to contain costs, particularly operations and maintenance (O&M) support for MWR programs. At the installation level, high operating costs are directly related to the age and configuration of our buildings. Panel members may recall the statement of the Assistant Secretary of the Army for Manpower and Reserve Affairs to the effect that many military installations are configured in a sort of World War II environment--we are not providing the kinds of MWR services and activities that today's sophisticated troops have come to expect and demand. Mr. Chairman, we are convinced that we can reduce operating costs and at the same time improve programs for our patrons and participants, but we need to replace our antiquated single-purpose buildings with modern, multi-purpose facilities akin to new municipal recreation centers and college student unions. We have neglected our physical plant too long. At the same time, we recognize that military construction priorities within the MWR program have correctly addressed the shortfall in child care capacity, which has caused other MWR construction needs to be deferred. We still have a full pipeline of child development centers in the military construction program. Nevertheless, we need your support to begin to replace our capital base on a phased, year-by-year, basis. We issued guidance on MWR construction programming to the Military Departments earlier this month. Funding, however, will be a problem, and we will need to work closely with the Congress in support of this initiative.

When we talk about the quality of life of military members and their families, one of the success stories near or at the top of the list is our military commissaries. Over the years, the military grocery store has been tried and proven time and again as a very effective means of caring for the military community and providing a valued noncash compensation benefit through savings on food and household items. In FY 1989, we are operating 422 commissaries around the world at an appropriated fund cost of about $760 million. For that investment, we provide several very important benefits. We produce over $1.8 billion in compensation value to military members, and we distribute approximately $5 billion of American products to American Service men and women through modern facilities comparable to the average American supermarket. But, most importantly, we send a clear and unequivocal message that their country cares for their welfare.

There are several commissary issues of current concern. As you may know, the FY 1987 Defense Authorization Act directed that the Department modify the method by which members of the Selected Reserve were authorized to use military commissaries. The Act authorized Reserve members to spread throughout the year the visits earned through their performance of active duty. Although we implemented the provisions of the Act immediately following its enactment, we found that the initial procedures produced an excessive workload for Reserve units and the commissaries, and that the procedures actually made it more difficult for the Reserve members to exercise the benefit. This was not the intent of the Act. Subsequently, we developed a Reserve commissary privilege card that will allow us to comply with all provisions of the Act and to more accurately account for the number of days authorized for Reserve members, without creating an overly burdensome workload. The new system will be fully implemented by early 1990. Until then we have provided interim guidance to the field to control entry to the commissaries without creating unnecessary administrative problems. The Act sends a clear signal to Reserve members that they are an important part of the Total Force, and it has been well received.

The second issue is our work to explore the possibility of supplying U.S. meat products to our commissaries in Europe. The

Department is coordinating directly with your committee staff to identify a systematic means to do so, and to identify the additive costs of providing U.S. meat rather than European Economic Community (EEC) beef. While supplying U.S. beef will be difficult logistically, we recognize the need to negotiate with the EEC on the trade restriction imposed by the hormone treatment rules they have enacted.

Finally, we are organizing the DoD study group directed by the MWR panel of your subcommittee concerning the future mission and costs of military commissaries. The Department agrees that a study of this magnitude is needed. We are devoting some of our best people to it and consulting with experts from the private sector to ensure the recommendations of the commission will continue the effectiveness and efficiency of the military commissary system. We expect to have the study completed by October 1 and will keep you apprised of our progress.

MEDICAL CARE

The problem of maintaining medical benefits is another area of tremendous concern from a war-fighting as well as a quality of life point of view. There are shortages of certain medical specialties, especially surgical, where military compensation lags behind the private sector. Not only do the shortages affect the medical care available to active duty members and their families, and to retired beneficiaries, but the surgical specialties are virtually all critical wartime specialties. To address the military shortages, the

Congress authorized a temporary, one-time bonus of up to $20,000 per year for multi-year extensions of up to 4 years for medical professionals. We have also proposed permanent legislation to correct long-term medical compensation problems.

Perhaps of more direct or immediate benefit to individual military members and their families is the CHAMPUS reform initiative which will provide greater access to affordable health care as an alternative to overcrowded military hospitals. The use of CHAMPUS requires the member to pay some portion of the costs. Under a Defense contract with a consortium of prominent health care companies and hospitals, military members' families will have new avenues to elect civilian health care, and preventive care not currently available under the standard CHAMPUS, at reduced personal expense. In addition, the initiative also eliminates requirements for filing claims.

The President's budget also includes a 2-year pilot program that will introduce user fees--called "copayments"--for nonactive duty beneficiaries at Defense medical facilities. In response to a similar system proposed in 1987 the Congress banned such initiatives for two years. The budget contains a compromise that would permit a 2-year pilot program that would introduce copayments at Defense Medical facilities in several geographic areas. We will establish an advisory panel, including medical experts from outside the Government, to recommend the design of the pilot program, and also to review and evaluate the program.

CHILD CARE

The families of most military members are young. According to recent estimates, nearly half of our enlisted members and their spouses are 24 years old or younger. Nearly 60 percent of their children are 10 years old or younger. About 44 percent of the spouses of military members are in the labor force. There are more than 50,000 active duty single parents and about 55,000 dual-military couples. Young children and working mothers make military child care a major issue. We now operate 639 child care centers on 408 installations worldwide. Average daily attendance exceeds 81,000 children. In addition, nearly 11,500 military spouses participate in family home day care programs, caring for up to 6 children in their homes at 223 bases. However, we estimate that demand still exceeds the capacity of our centers by more than 50 percent. To help address the unmet child care needs, DoD is exploring a number of options to increase capacity, including private financing under the authority of Section 2809 of Title 10. The Department successfully contracted out for the construction, management, and operation of a child development center at the Pentagon. A second contract for Tracy Depot, California, has also been awarded. We are pursuing many options to meet our child care needs, and we need the committee's continued support as we engage in innovative strategies to expand our capacity in this important program.

SPOUSE EMPLOYMENT

In regard to the related issue of spouse employment, the four Services have continued to expand their family member employment assistance and joint-Service programs. Aggressive educational and marketing efforts are beginning to overcome employer discrimination against the perceived problem of high employment turnover among working military spouses. Problems exist in many locations, however, where the local economy does not provide for sufficient opportunities for employment. We are supporting home-based business endeavors through policy changes and related training, and our employment counselors are working with spouses to create opportunities to build skills and expand their education during periods of unemployment.

A unique pilot project, a telephone job bank covering nine Navy, Army, and Air Force bases in the Hampton Roads, Virginia, area began a one-year test in October, 1988. The project permits spouses to access job listings and generic employment information through an "800" number. It has grown steadily both in terms of job openings listed by major employers, as well as numbers of calls by job seekers. In its first four months, the job bank received approximately 12,000 calls from family members. We are now looking for ways to expand a permanent program throughout the CONUS.

In the area of Federal employment, the number of spouses obtaining employment through their spouse preference continues to grow. Since the beginning of the spouse preference, 20,000 spouses have been placed, and the Department now employs about 60,000 military family members.

ADOPTION REIMBURSEMENT TEST

In the National Defense Authorization Act for Fiscal Years 1988 and 1989, the Congress directed that the Secretary of Defense establish a 2-year test program to reimburse military members for certain expenses incurred in adopting a child under the age of 18. We have published guidance on the test program, which has been implemented by the Military Services.

While it is still too soon to provide comprehensive case data, we can say that many adoptive military parents consider the program a welcome benefit with a positive impact on their morale. We will provide the Congress with a full report upon completion of the test.

CONCLUSION

We believe the basis for our quality of life programs is sound and that the programs themselves are essentially healthy. We also know improvements are still needed. In addition, we should be concerned about the perceptions among military personnel--as well as the reality--that their benefits are being eroded. Such things as increased MWR user fees required by cuts in APF support have a direct, measurable, and highly visible effect on our ability to maintain the quality of military life and retain our best people. We recognize that as a nation we must now reallocate our resources. We must do that in a way that preserves our essential strength, not only as a fighting force second to none, but as an institution. Thank you very much.

Mr. HUTTO. All right. Thank you very much for your fine statement, General Jones.

Mrs. Pope, do you have a statement?

Ms. POPE. No. I will be prepared to answer any questions.

Mr. HUTTO. All right. OK, fine.

We will start our questioning, and, General, if we could talk a little bit about Panama and some of these other places now.

Over the last couple of months there has been TV and newspaper coverage regarding the lifestyle and the quality of life of our military personnel stationed in Panama, the Philippines, Greece, and South Korea.

For example, in Panama, during the period February 6 through March 26, a total of 49 days, there were 624 incidents of harassments against military personnel, including the seizure of school buses loaded with American children.

In the Philippines, our families are oftentimes restricted to the bases and at Clark Air Force Base we now have a wall completely around the base.

In South Korea, American housing units have been attacked. In Greece, military personnel and their families are under constant pressure because the Greek Government has told them they are not wanted. There have been bombings and intimidations.

General Jones, would you or Mrs. Pope explain what is taking place in these countries? Please give the subcommittee some ideas as to what DOD is attempting to do to protect and assure our people of a decent quality of life.

Also, are there any specific plans to protect our military families, and are any plans underway to take out our dependents?

General JONES. I will start off, sir, with talking about some personnel-related initiatives and then get into the specific MWR programs.

First of all, in the Panama situation we are protesting through official channels each violation. These have primarily been in detaining our people against their will and then in some cases using undue force to question them. In some cases there have been beatings. So we are protesting these through official channels.

We have recently changed the accompanied tour length from 36 months to 30 months and the unaccompanied tour lengths from 24 months to 15 months.

Mr. HUTTO. General, is DOD working with the embassy there to do something immediately to protest, or does it have to go to Washington and then go through all the bureaucracies?

General JONES. We are working with General Woerner's people down in the Southern Command. I think the State Department is contacting the embassy. I know we have had representation over at the National Security Council, especially during the school bus episode down there. So I think these are getting high-level attention at all levels, Mr. Chairman.

Mr. HUTTO. OK.

Mr. DYSON. Mr. Chairman.

Mr. HUTTO. Yes. The gentleman from Maryland.

Mr. DYSON. Before you continue, I would like to start an opening statement, if I could, on the issue of the Panamanian situation.

Mr. HUTTO. OK.

Mr. DYSON. As you know, in addition to being a member of this subcommittee, I am also Chairman of the Panama Outer Continental Shelf Subcommittee and our Merchant Marine and Fisheries Committee.

I think this is a very timely hearing. I would like to welcome General Jones here.

As you know, the U.S. Southern Command has as one of its primary missions the defense of the Canal. Yet at this time the Canal and SOCOM are being harassed and hindered by General Noriega. Noriega has launched into a two-pronged attack against American interests in Panama.

One tactic consists of outright criminal assaults against U.S. military personnel, against employees of the Canal. These are usually carried out by thugs in civilian garb. I have also seen allegations that the assaults involve uniformed members of the Panamanian defense forces in the so-called dignity battalions.

The second tactic involves taking legal action against all Panamanians who are delinquent in their taxes. This is particularly troublesome for Panamanian employees of the Panama Canal, for instance, who have been legally delinquent in their tax payments ever since the U.S. sanctions against Panama went into effect.

As you know, the sanctions prohibit the Canal Commission from turning over to Panama the taxes it withholds from the paychecks of Panamanian workers.

The other difficulty this tactic presents, and it seems to be a reasonably legitimate complaint, in this country if an employer simply chose not to turn over their withholding taxes, the U.S. Government would move to shut the whole company down.

Noriega is taking a slightly different route to the same destination. He is targeting the individual workers. As a result, the Canal is in imminent danger. Unless it can get its workers to the Canal, it cannot operate. This is what has become a very big concern for me.

I understand they are taking the tags. Therefore, people are ineligible or cannot drive their cars. When the Chairman gives me an opportunity, I am going to ask some questions of you, General Jones, after the Chairman has finished his.

Mr. HUTTO. OK. Thank you.

You may continue with your statement.

General JONES. I will continue with a personnel-related initiative and then into the MWR.

We have moved 2,200 families to on-post housing where we can better protect them from the harassment, and we still have 562 military families who should be moved on post by mid-summer.

DOD dependents are not permitted to join newly assigned troops in Panama until on-post housing is available and assigned. Movement limitations have been imposed by the CINC when the risk to personnel is serious enough to warrant that. Current limitations are not restrictions per se, but serve more as a caution to members to avoid potentially hazardous situations.

The command information program is being used to advise personnel and their dependents of high-risk areas and specific events to avoid. We have liberalized environmental and morale leave program which allows use of space available seats in military aircraft.

Expanded to allow military members to travel to and from the U.S. without their military sponsor and under high-priority status. This allows a respite to the U.S., should the families desire it, with no limits on EML trips being imposed.

Security enhancement forces are augmenting the current force structure in Panama. Security forces are patrolling the housing areas on an irregular basis day and night to try to slow down the crime rate.

Shuttle buses are being run between the military installations and to and from the off-post contract hotels where many of the unaccompanied personnel line.

Now, on another quality-of-life related item, the local armed forces radio and television services of the Southern Command network was expanded to 24-hour-a-day broadcasts, and we are in the process of upgrading that to a multi-channel operation in May. Since Panama is a most restrictive nation and military community, a Southern Command network-initiated a cable system for the military community providing sixteen channels of uncensored TV.

The military community also operates a Care Line—a call-in listing and referral service. The Air Force has put top priority on construction down there. We are in the process of upgrading gymnasiums, child care centers, open messes, youth centers, arts and crafts centers and so forth.

We have extended the Armed Forces Exchange stores and shopettes' hours of operation, and we now have three of our shopettes down there that operate on a 24-hour basis.

We have constructed a large community park which was recently completed at Fort Clayton, offering a variety of recreational facilities, such as picnic areas, golf, driving ranges, and baseball fields. We have a miniature golf course and a skateboard area under construction.

The local newspaper, *The Tropic Times,* is now published three times weekly, up from once per week.

We are trying to bring more live DOD shows to Panama for performance on both coasts.

The Air Force is providing increased major command support in nonappropriated funds allocation.

We have established a Well Center for Lifestyle Assessments, blood pressure checks, cholesterol checks, and other types of things that will improve the lifestyle of the people.

We have established a youth sports council to improve the sports program. We have established Nautilus training classes at the fitness center. Both the Atlantic and the Pacific communities held very successful 3½-day fairs. A large Fourth of July celebration is planned.

So I think we have a lot of things ongoing. We can also improve those, Mr. Chairman, as we go through, and we are constantly looking for ways to do that.

So as Mr. Dyson mentioned, those types of things do concern us. The bus incident I think was a situation where the drivers of those buses supposedly had not paid their taxes.

Mr. Dyson, we have got the same information as you do that the tags are being taken from people who work at the Canal Zone, so they cannot get to work if they cannot drive their cars. So those types of things are happening down there.

Mr. **Hutto**. Thank you, General.

Mr. Hefley.

Mr. **Hefley**. Nothing.

Mr. **Hutto**. Mr. Bilbray.

Mr. **Bilbray**. General, in the Canal Zone, we recognize that either through our failure of our own foreign policy in dealing with Noriega, the harassment is going to continue as long as this man is there.

What kind of orders are you under, more or less, in dealing with the Panamanian military and their special forces there and special police? I can see your people being frustrated and being treated this way, harassed and beaten. At what point do you need support from Congress to take whatever action is necessary to protect our people? I don't mean just keep taking it.

We are the laughing stock. I was in Central America recently and I tell you, we are the laughing stock of Central America over the Panamanian situation. People cannot believe that Noriega has done this to us and treats us like he does, and what they consider the greatest military power in the world and the greatest economic power continues to take it.

What would you like to do? What do we need to do to give you the authority to do whatever is necessary to protect American people and let that government know they cannot continue to harass our people and the people who work for us?

General **Jones**. Well, our specific instructions to people are more or less take a passive role and not to resist. Usually this is an incidence where they may have one U.S. soldier or a family and several Panamanians involved, so our instruction is do not resist.

As a result of that, they are often paying fines, or things such as billfolds, rings, watches, things of that nature are taken from them.

As far as actions taken, I am not sure I am in a position to comment because I certainly do not have all of the background as to exactly what is going on down there to resolve the problem. I do not specifically get into the operational part of this business, sir. So I——

Mr. **Bilbray**. Has any warning been given to the Panamanian Government to stop it or else? Or is that too strong a term to use in diplomatic circumstances?

General **Jones**. I think the State Department has issued several warnings to Mr. Noriega, and I am pretty familiar with him. I have been in his presence a number of times when he's been in this country, and he is a very arrogant person. I think it will take very, very strong action to get his attention.

Mr. **Bilbray**. The warnings are not going to do it.

General **Jones**. I do not think warnings will have a very positive impact on him.

Mr. **Bilbray**. Thank you.

Mr. **Hutto**. Thank you, Mr. Bilbray.

Mr. Leath.

Mr. **Leath**. Thank you, Mr. Chairman, General Jones. Welcome.

General **Jones**. How are you, sir?

Mr. **Leath**. Fine, thank you.

General, I am concerned about the increased levels of appropriations going to sport clubs, golf courses, and bowling centers, and the Appropriations Committee's move to cap the amount of overall MWR appropriated fund support. The Department of Defense and the Armed Services Committee have worked hard in the past 3 years to reduce funding to those morale, welfare and recreation programs, with the capability to be self-sustaining through user fees and charges, except for those bases that are geographically remote or otherwise incapability of being self-sufficient.

Now that the parameters for this support have been set, is not the cap on overall MWR funding obsolete?

General JONES. Yes, sir. Very much so. I think we are unduly restricting the hands of the commanders out there. I think we have all the guidelines that we need. Commanders are committed to making the revenue-generating operations run efficiently. I think we should remove that cap now and remove that restriction on the commanders.

Mr. LEATH. You mentioned in your statement that OMB recently approved DOD's plan to establish portability between pay systems. Two questions: What are the key ingredients to the plan, and how will it affect the MWR work force?

Second, will the Committee receive the proposed legislation so that we can evaluate it and put it in this year's Authorization Bill?

General JONES. We should have that to you shortly. We had some retirement issues that we had to work out with OPM. We think those have been resolved. The last check that I made last week. We are working with OMB to receive clearance on legislative language.

So we have allowed quite a bit of employee benefit flexibility in transitions between nonappropriated fund and civil service positions. The workers will be permitted to remain in their existing retirement plan or they can enter, as new employees, the retirement plan of the gaining employment system.

Other types of benefits that they have earned, such as sick and annual leave, and health benefits participation, can also be transferred over to the new retirement employment system.

So we think it is going to meet the needs of both groups of people, both appropriated and nonappropriated fund people. We think the program is one that members of Congress will be happy with. We hope to have this to you in very short order, Mr. Leath.

Mr. LEATH. We look forward to getting it.

You mentioned on page 16 of your statement that in fiscal year 1989 you operated 422 commissaries around the world.

General JONES. Yes, sir.

Mr. LEATH. Which cost $760 million. However, you go on to mention that the compensation value to the military member is over $1.8 billion.

How do you arrive at this figure and what does it mean?

General JONES. Well, when we say this, we allude to the fact that our service members, we try to allow them to realize a savings of 25 percent on products sold in commissaries. So out of the over $5 billion worth of sales that the commissary systems have, there would be a 25 percent savings, or over $1.8 billion in savings passed on to our men and women in uniform around the world, sir. So that is how much value our service members realize from the commissary process, sir.

Mr. LEATH. The panel directed that DOD undertake a comprehensive analysis and evaluation of the commissary system. Would you briefly explain how the study will be done and what is your projected report date?

General JONES. Yes, sir. We do have the plan in existence for conducting the study. We are initiating action. Our members will be assembling next week. I already have some of the members.

I will have a steering committee, which I will chair, with the service DCSLOGs as members of that committee. Then I will have a study group chairman who will oversee the working group/committees. Then I have broken three committees down into about six subcategories. We will look at resourcing. We will look at financing. We will look at staffing. We will look at construction. All the things that you gave us in the letter that you sent us, that you thought it would be a good idea to look at.

We have included members from the commissary and exchange civilian communities, among others. So we think we have brought a wealth of talent in.

I would like to report that the nominations—the people who are being nominated to us to serve—are the very best in the business. So we are very happy. We went out and asked the services, tasked them to provide membership on these various subcommittees. Each one of the services will chair about two of these subcommittees to do the study. We think that we can provide you a very, very professional job. We would expect that we could report out to you the first of October.

Mr. LEATH. Very good.

General JONES. It is going to take about 6 months to do it and do it well, sir.

Mr. LEATH. Mr. Chairman, if I could take the liberty of one other question while we are on this track.

Mr. HUTTO. The gentleman is recognized.

Mr. LEATH. The subcommittee has learned of a potential for a shortfall in the funding for the transportation of exchange products to our military overseas. I have several questions on the matter, very short, but they are related, so I will just say them all at one time.

Would you please give us the status, number one, of the transportation funding?

General JONES. Yes, sir.

Mr. LEATH. Second, why is this funding included within the category of MWR funding? What action is DOD taking to solve this problem and prevent it from occurring in future years? Finally, what can we do to help you?

General JONES. Sir, part of the problem has to do with the ceiling that you mentioned. The Army has a budget line for the shipment of AAFES goods overseas. This is the area that the Army failed to include enough of its OP 34 Report that came over here. So the monkey is really back on our back. We goofed up and failed to provide the right numbers. So we had about a 45-percent increase in the cost of transportation overseas. We also had about a $28 million problem in the currency fluctuation program. So it turned out to be about a $95 million shortfall.

Now, the Army has the funds to pay for it, but the MWR ceiling precludes us from putting dollars in there to pay for that.

We will ask the Congress to lift the ceiling on our MWR programs so that we can move the money over and pay for it. We have recognized that. We have alerted all of the services to the fact that we have this problem. We think we have it resolved, but it was an error on our part, Mr. Leath. We just overlooked something in the budget justification process.

What this would have meant is that we would probably have had to procure off-shore items, such as buying beer and soda and food stuff, overseas rather than being able to ship American products.

Appropriated funds pay for the cost of shipping exchange goods from the CONUS to overseas so that service members there do not have to pay higher prices than service members would pay here in the States.

We think we have a handle on it, but it does cause us a problem. The Army has borrowed against its existing ceiling from other programs to get us through March and April. We understand that a ceiling increase will be in the Supplemental. If we do not get that, we have really put ourselves in a tough fix because we have borrowed money from overseas areas, and some of our other MWR programs are going to pay the price for it, sir.

Mr. LEATH. Thank you, Mr. Chairman.

Mr. HUTTO. Mr. Lancaster.

Mr. LANCASTER. General, as I was coming in the room, you were talking about your concern about the user fee on health care, which concerns me greatly too. In your statement you talk about the improvements in the CHAMPUS Program which is designed to cut down the out-of-pocket expenses to help care for our military members, the retirees. But it seems to me completely inconsistent that we are going to take from Peter to pay Paul on this particular issue.

You said that you were concerned about it, but you did not say how you were concerned. Are you in fact opposing the OMB proposal? Is DOD going to actively work against the implementation of this request? Just what are we going to do to stop this perception on the part of our military people that their benefits continue to be eroded?

General JONES. Sir, we feel very strongly that we do have an obligation to our retired community to provide those services because we feel like they have earned that right.

We are in the process now of trying to identify what our requirements are for our medical treatment facilities. We would like to bring more of that CHAMPUS business in-house. We would like to be able to treat more of our retired people in our military treatment facilities.

What we are in the process of doing right now is attempting to identify what our wartime requirements are. Then we are going to have to step up to the facts and say, rather than putting the money out into CHAMPUS business, we may want to bring more military doctors on board to treat more of those people.

Mr. **Lancaster**. I am not asking you what you are doing in CHAMPUS. I am asking you what you are doing to stop this copayment program for use of military health care facilities.

General **Jones**. Mr. Cheney has not taken a position on it yet. We are in the process of trying to get access to him to brief him on it after the DRB hearings.

Mr. Carlucci and Mr. Wright, over in OMB, agreed to do a test on this. I do not think you will find anyone in the Department of Defense who is in favor of that. I cannot speak for Mr. Cheney at this time, Mr. Lancaster—exactly what his position will be on it—but we would like to see the thing go totally away. We do not think our retired people should have to pay for the right to have medical attention or to have a prescription filled.

Mr. **Lancaster**. I have just come back from a trip to South America; and admittedly, we do not have many military personnel living and working in South America, but we do have a lot of DEA agents, a lot of embassy personnel, and a lot of business people. Their sole tie to this country is often the AFRTS television. Everywhere I went, every single stop I made, everybody said, "Stop the scrambling of the system. Because this is the only way that we get news from back home, that we get American entertainment, and see what you can do to stop it."

Likewise, it seems ridiculous to me for us to spend millions of dollars on Radio Free Europe and Radio Liberty and Radio Marti and all of these other information sources all over the world, but yet we are scrambling a system that is now providing not only to Americans who are stationed in foreign countries, but also to local citizens a signal that would provide them unbiased American news, American entertainment.

Can you give any justification for why that signal is being scrambled, and is there any way that we can reverse that decision?

General **Jones**. I will need to get back to you on that, Mr. Lancaster. I do not know the basis if there is anything legal that causes us to do that. We are running in to some program scrambling with Mr. Noriega in Panama where he is deliberately interfering with a signal. But down in the other countries where we are providing that kind of coverage, I am not aware of the problem, so——

Mr. **Lancaster**. This is a decision on the part of AFRTS to scramble the signals so that the people outside of this country cannot receive the signal.

General **Jones**. What I would need to do is see if there is anything in our agreement with the host nation country that precludes us from broadcasting American TV down there. We do have one or two countries that I am aware of that that is the case.

What I would need to do is to check the legal basis with the State Department and see if there is anything. I agree with you wholeheartedly. If we are providing that kind of service to Americans living on installations, then that is great PR for this country. But I just do not know what the legal ramifications are.

Mr. **Lancaster**. If you could get back to me individually as well as to the committee.

General **Jones**. All right, sir.

[The following information was received for the record:]

ARMED FORCES RADIO AND TELEVISION SERVICE

The Armed Forces Radio and Television Service (AFRTS) has been charged with the mission of providing U.S. military commanders with a means of communicating internal information to DOD personnel and their families serving outside the continental United States.

Programs are procured by AFRTS, "decommercialized," and mailed on videocassette to the using stations. Annually, the videotape entertainment package includes more than 90 percent of the most popular programs on the Nielson "Top 100" survey list. News programs are provided directly from the major U.S. commercial and public networks including ABC, CBS, CNN, and National Public Radio.

All of the news, news analysis and commentary, and public affairs programs are made available free to AFRTS exclusively by the program copyright owners. In addition, program owners and syndicators make their entertainment programs available to AFRTS at a fraction of the cost charged to regular commercial radio and television stations. As a example, AFRTS pays $1,550 for each 1-hour episode of the series "Magnum, P.I." In Los Angeles, a commercial television station would pay $120,000 for the same 1-hour episode. Additionally, AFRTS has historically been exempt from payment of fees to unions and guilds normally associated with radio and television products.

AFRTS' programs suppliers require that we limit the distribution of these programs to only DOD personnel overseas. Until the advent of the AFRTS Satellite Network (SATNET) in 1979, news, sports, and other time-sensitive programs were distributed to using stations overseas by videotape. We wanted a method to deliver these programs as they were happening. AFRTS does not compete for audiences in the U.S. with any broadcast facility or organization and is, in fact, prohibited from doing so. Scrambling our SATNET signals to overseas stations is a means of ensuring that the television industry will continue to support AFRTS.

By making it impossible for commercial "pirates"—foreign and domestic—to steal programming from our satellites and use it without payment to the copyright owners, we protect out own continued use of the programming. CNN and NBC, for example, have made it clear they expect us to take aggressive action to prevent piracy. ESPN has advised AFRTS that "until AFRTS scrambles all its satellite signals, we will not be able to furnish you any ESPN programming for satellite retransmission."

The only purpose in encrypting AFRTS satellite signals is to ensure the continued availability of U.S. television programming from program suppliers at nominal cost. This programming would otherwise be lost to the 1.5 million service men and women and their families serving overseas and at sea—the people AFRTS is specifically chartered to support.

Mr. LANCASTER. May I ask just one more question, Mr. Chairman?

Mr. HUTTO. Yes, Mr. Lancaster.

Mr. LANCASTER. One of the often-cited benefits of the military is housing.

General JONES. Yes, sir.

Mr. LANCASTER. Of course, that is still a critical problem.

General JONES. Yes, sir.

Mr. LANCASTER. How effective has the 801 Housing Program been in providing another source of housing? Do you have any additional ideas for modification of that program or the implementation of other programs which might further solve the problem of housing?

General JONES. The responses that we have received to date have been very positive. I am not aware of any modifications that are going on at the present time. However, I would need to check with a facility engineer, OCE, to see if they have any. I am not aware, at this time, of any changes, but all reports that we have, soldiers have been very happy with it. Commanders have been happy with it. We think the program has been a success.

So do you have anything on it, Barbara?

Ms. POPE. I think the other two pilots that we tried were at Fort Ord and Wright-Patterson Air Force Base, where we did the housing authority under 2667, where we contracted out totally. We leased the land but with the stipulation that the contractors could be required to destroy the building.

Those are two projects that have been met with a lot of success.

Mr. HUTTO. Mr. Dyson.

Mr. DYSON. Thank you again, Mr. Chairman.

General, as I said, I have a lot of interest in Panama, and the situation there seems to be deteriorating rapidly.

At a meeting that a number of us had that was initiated by Congressman Ike Skelton back at the beginning of this session of the Congress, we met with General Woerner. In his very candid opinions that day—and believe me, we appreciated his candor—he indicated to us that regardless of what happened in Panama, a replacement down there in the Presidential elections on May 7 would very much likely be a thug like General Noriega.

I think if that is the case, and I tend to believe him, we are going to have a continued situation like what we have right now.

I guess my concern right now, my interest right now, is what are your plans for that eventuality? I really enjoyed my colleague, Mr. Bilbray, who said something about the Army's response, "Stop or else." Well, we have seen the "or else."

General JONES. Yes, sir.

Mr. DYSON. Those are the sanctions that have at this point tended to thoroughly alienate the people who we are trying to help against us.

General JONES. Yes, sir.

Mr. DYSON. Not against Noriega.

Also, I keep hearing reports that refer to an internal DOD memorandum in which you document individual incidents of assault, harassment, that sort of thing.

Where is that document? I would like to be able to see it.

General JONES. We can provide that to you.

[The following information was received for the record:]

INCIDENTS

A copy of the document in question is attached. The substance of the incidents is clear, although personal information about the individuals involved has been masked to protect their privacy.

FACT SHEET

23 Feb 89

[redacted]

[redacted]

SUBJECT: Summary of most serious PDF - US Forces Personnel Harassment Incidents

PURPOSE: To update USCINCSO on PDF - US Forces incidents from 6 Feb 88 to 23 Feb 89.

FACTS:

1. On 6 Feb 88, [redacted] A company, 536th Engr Bn, failed to stop immediately at the halt of PDF member on foot patrol. Upon returning to the official to explain his actions, [redacted] [redacted] was kicked, beaten with a flashlight (i.e., it was broken over his head) and had a revolver placed to his head. Upon arrival of another PDF Sergeant, [redacted] was cited for "fleeing" and released. The US element of the Joint Committee has protested the use of excessive force and requested a PDF investigation into the matter. PDF did not respond to protest. (Code 2)

On 17 Feb 88, [redacted] and his wife were almost hit by a vehicle driven by PDF member Hurtado on the Transisthmian Highway. Hurtado was off-duty and had been drinking. An altercation ensued where PDF member Hurtado struck both [redacted] [redacted] and his pregnant wife with his night stick. A second car carrying two Panamanian civilian friends of [redacted] stopped and they attempted to take the night stick physical from Hurtado. All parties were treated at Santo Tomas Hospital and transported to Court where the charge was changed from assault on a PDF member to disrespect. [redacted] was subsequently placed on quarters for three days by Gorgas Army Hospital. (Code 2)

NOTE: Incident Codes in parenthesis are as follows:

1. Denial of freedom of movement.
2. Excessive force/endangerment.
3. Procedural guarantee violations (Annex D).
4. Other violations of Treaty Documents or Joint Committee Arrangements.
5. Detentions without charges.
6. Confiscation/destruction of personal property/US Government property.
7. Violations of US installations.

3. On 25 Feb 88, a dependent wife reported being sexually fondled by a PDF member while waiting for her vehicle sticker at the Ancon Revisado. A formal Public Security protest was presented to the PDF. (Code 2)

4. On 8 Mar 88, while looking out his residence on Via Argentina, [redacted] had PDF shotguns fired at his person. Additionally, shotgun blasts were fired at his American neighbor by PDF riot police. This incident was made part of a formal JC collective protest to the PDF. (Code 2)

5. On 16 Mar 88, [redacted] (Panamanian wife of a Marine CPL stationed in the Mediterranean) received wounds from a PDF shotgun blast fired into her mother's residence. She had shotgun pellets removed from her uterus, large and small intestines and lower back. This incident was made part of a formal JC collective protest to the PDF. (Code 2)

6. On 17 Mar 88, [redacted] stopped on the Transisthmian Highway to assist a friend's wife. He was immediately confronted by a PDF pointing a gun at him and demanding an ID. The PDF member confiscated his wallet (e.g., $20, ID, credit cards, etc) and ordered him to depart. This incident was made part of a formal JC collective protest to the PDF. (Code 2, 5, 6)

7. On 21 Mar 88, PDF [redacted] physically attempted to strike US MP [redacted] while patroling Ft Amador. Both LEA and JC formal protests were filed with the PDF. (Code 2, 7)

8. On 22 Mar 88, the seventeen-year-old son of [redacted], [redacted] was stopped near Gorgas Hospital by a pistol waving PDF patrolman; he was released upon providing appropriate ID. This incident was made part of a formal JC collective protest to the PDF. (Codes 2, 5)

9. On 11 Apr 88, [redacted] was approached by several PDF in an official vehicle on Ave Estado de Jamaica. The PDF had several weapons pointed at [redacted] [redacted] was chased by the PDF personnel to his quarters where he found refuge with his landlord. PDF detained, handcuffed, verbally abused and strip-searched [redacted] In addition, $25 was removed for [redacted] wallet. [redacted] sustained bruises on his wrist from the handcuffs. PDF pursued [redacted] because he looked suspicious. [redacted] was released to military police liaison without charges. A formal JC protest was made to the PDF. (Code 2, 5, 6)

10. On 17 Apr 88, six soldiers were detained in Chorrillo when they missed the turn off from the Bridge of the Americas. They were transported to G-2 with a PDF escort which had a 50-cal mounted on their vehicle. They were interrogated, search and questioned as to their duties. They were transported to Bldg 4 - Amador and released to the military police liaison without charges. Technically, a Freedom of Movement violation. (Codes 1, 2, 5)

11. On 8 May 88, [redacted] was detained in the area of the Ovalo Bar and the Ancon Inn for drunk and disorderly conduct. He was handcuffed, taken to Santo Tomas Hospital and then to Modelo Jail where he was questioned as to the cargo of the arriving planes at Howard. He was beaten on the head, back and face with a rubber club. He was later taken to Bldg 4 - Amador and released to the military police liaison without charges. [redacted] is in Ward 4 for observation. A formal JC protest was forwarded to the PDF for excessive use of force. PDF response to protest - [redacted] was not beaten at the station as alleged. (Codes 2, 5)

12. On 19 May 88, [redacted] and [redacted] were apprehended for taking pictures in the vicinity of Gorgas Hospital. During the apprehension PDF security guards chambered live ammunition and brought [redacted] to Night Court. Both soldiers had their procedural rights denied. This incident was made part of a formal JC collective protest and was discussed with the presiding Night Court judge. (Codes 2, 3, 5, 6)

13. On 4 Jun 88, [redacted] was detained in Vera Cruz for being involved in an altercation. While at the Vera Cruz PDF station, [redacted] was beat by the PDF with a rubber hose. [redacted] was transported to Bldg 4 - Amador and released to the military police liaison. A formal JC protest was made to the PDF. PDF response to protest, [redacted] injuries were sustained in the fight he had with Panamanian national. (Codes 2, 3)

14. On 5 Jun 88, [redacted] (AF), was detained by the PDF at the Ft Amador Causeway for being involved in a fight with Mr Aguilar, who is employed at G2 (Panamanian Intel). The PDF approached [redacted] vehicle and poked him in the ribs with his night stick to force him out of the vehicle. He was then taken to the side of the PDF vehicle and hit on the buttocks with the night stick. He was then transported to Bldg 4 - Amador where he again was involved in an altercation, placed in a choke hold,

punched by a couple individuals and hit by a PDF Lieutenant with a riot baton. [redacted] was transported to Santo Tomas for a medical examination. [redacted] was released to the military police liaison without charges. A formal Joint Committee protest was made to the PDF. PDF response to the protest was that minimal force was used to subdue him. (Codes 2, 4, 5)

15. On 16 Jun 88, [redacted] and his 18 year old wife were assaulted by a male dressed in military fatigues, a black baseball cap and carrying a carbine near the San Miguelito township. [redacted] was beaten and placed into the trunk of the vehicle while [redacted] was raped and beaten by the male. A formal JC protest was forwarded to the PDF. PDF interim response to protest solely to inform DENI conducting investigation. (Codes 2, 5, 6)

16. On 5 Jul 88, two US Forces members were detained in the vicinity of Gamboa. The PDF requested identification at gun point from the individuals. They were then taken for questioning to the Gamboa PDF Station, then to the Paraiso PDF Sub-Station, on to the Balboa PDF Police Station and finally to Bldg 4 - Amador. Both individuals were released to the military police liaison without charges. A formal JC protest was forwarded to the PDF. (Codes 2, 5)

17. On 1 Aug 88, on or about 0445 hours AF [redacted] and his father were detained in the vicinity of Rio Abajo for what the PDF termed as "acting suspicious." The PDF beat his father and then transported both to a stadium in the San Miguelito area. They were taken to a room, made to face the wall and questioned with guns pointed at their heads. Their wallets were searched, a total of approximately $300, ID cards and an 18k gold bracelet taken from them. They were detained for approximately 24 hours and released on the spot with out charges. [redacted] stated the four PDF were dressed in civilian clothes and behaved intoxicated. A formal JC protest was forwarded to the PDF. (Codes 2, 3, 4, 5, 6)

18. On 3 Aug 88, [redacted] was detained by two PDF in the vicinity of Curundu at approximately 0125 hours. She was pulled out of her vehicle, searched and fondled extensively by both PDF. Six dollars were removed from her wallet and briefcase. [redacted] was allowed to leave after they realized she was pregnant. A formal JC protest was forwarded to the PDF. (Codes 2, 5, 6)

19. On 4 Aug 88, the dependent wife of [redacted] was abducted in the vicinity of 50th Street. Four individuals dressed in civilian clothes with weapons detained [redacted] and transported her to S-1 then to G-2. [redacted] was photographed, yelled at by a PDF waving a machine gun and denied the use of a telephone. [redacted] was charged with disrespect to the PDF and disturbing the peace and fined $365 or 365 days in jail. [redacted] was released pending the presentation of her appeal. A formal JC protest was forwarded to the PDF. (Codes 2, 3)

20. On 9 Aug 88, [redacted] AMCCOM LAR was detained by the PDF in Panama City by four individuals in green uniforms with guns drawn. He was accused of working for the CIA and then repeatedly kicked and struck at which time he lost consciousness. After he came to, he departed to his hotel room and subsequently departed to CONUS. His official passport and approximately $300.00 were taken from him. A formal JC protest was forwarded to the PDF. (Codes 2, 5, 6)

21. On 12 Aug 88 at approximately 1830 hours, a dependent, [redacted] was detained by two men in civilian clothes while driving on Manuel Espinoza St. They identified themselves as PDF. She was taken to G2 and interrogated and had a gun pointed at her. She was released after 45 minutes without being taken to Bldg 4 - Fort Amador and without being charged. A formal JC protest was forwarded to the PDF. (Codes 2, 3, 5)

22. On 21 Aug 88, [redacted] was detained by two PDF in the vicinity of Federico Boyd and Via Espana. The PDF demanded $97.00 to take care of the traffic violation. [redacted] stepped out of his car to pay the demanded money when one PDF drew his weapon and the other his night stick. The PDF finally took only $40.00 and allowed [redacted] and his friend to depart. A formal JC protest was forwarded to the PDF. (Code 2, 5)

23. On 24 Aug 88, [redacted] was detain in Colon City while on official business in an official vehicle. The PDF told him he was not authorized to be in Colon without a PDF Liaison. He was then instructed to follow the PDF down to the 2nd Zone PDF Station. At this time [redacted] headed for Ft Davis which preciptated a chase by the PDF which ended as soon as he entered Ft Davis. A formal JC protest was forwarded to the PDF. (Code 1, 2, 5)

24. On 27 Aug 88, [redacted] and [redacted] were approached by an unmarked vehicle which attempted to stop them at the intersection of Central Ave and 9 Jan streets. Further down the road they were forced to stop and the individuals came out with weapons. They were taken to the PDF HQ, searched, questioned and released. Military Police Liaison was never notified. A formal JC protest was forwarded to the PDF. (Code 2, 5)

25. On 28 Aug 88, [redacted] was detained for an alleged traffic violation on the Thatcher Highway. The PDF requested his license and demanded he turn his motorcycle off. [redacted] questioned the reason for his detention which the PDF responded "Turn the motor off, do you want me to shoot you?" The PDF also attempted to grab his keys. After a short period of time, the PDF returned his license and told him, "Get the hell out of here". A formal JC protest was forwarded to the PDF. (Code 2, 5)

26. On 3 Sep 88, [redacted] and his family were detained in the vicinity of Rio Sereno Volcan by six armed civilian-clothed individuals. They were transported to a PDF station where a PDF LT Chavez accused them of spying and threatened their life by stating: "Maybe your country sent you hoping we'd kill you and your family, or beat you up so they'll have a reason to invade; or for the New York Times to print 'US soldier and family killed by Panamas Defense Forces.' Even if we didn't do anything to you, you may still go out and have a beer and on your way back, driving at night, you miss a curve, fall off a cliff and die along with your family." A formal JC protest was forwarded to the PDF. (Codes 2, 3, 4, 5)

27. On 16 Sep 88, several US Marines were involved in a traffic accident in which the other driver was at fault. Nevertheless, the arresting PDF's applied excessive force when they instructed the Marines, at gun point, to lay on the ground and struck one of the Marines on the head with the butt of his weapon. Twenty dollars were removed from one of the Marines wallet and $138 and drivers license from another. (Codes 2, 6)

28. On 18 Sep 88, [redacted] and [redacted] US MP officials on official patrol in the summit area, were detained in the vicinity of the Gamboa Renacer Jail. They were patrolling on a gravel road which lead to the jail facility. They were detained at gun point, questioned and taken to Bldg 4, Ft Amador, where they were released to the Military Police Liaison without charges. A formal JC protest was forwarded to the PDF. (Codes 2, 5, 6)

29. On 29 Sep 88, PDF seized US Forces equipment (cannon tube) from the port of Las Minas. The Panamanian press was summoned for propaganda purposes and a PDF press conference was held in the afternoon. The SCPM, MTMC, SCSJA and SCTA representatives were denied access into the Port of Las Minas. A US Forces Military Police Liaison was also denied access and a PDF placed an AK-47 to his chest and pushed him away. A formal JC protest has been forwarded to the PDF for the seizure of the equipment. (Codes 1, 2, 4, 6)

30. On 6 Oct 88, [redacted] was in a taxi on his way home in El Cangrejo when he fell asleep. While asleep, the taxi driver picked up another passenger and never delivered [redacted] to his final destination. The taxi driver then demanded [redacted] pay for the entire time he was asleep, which he refused. A verbal altercation then ensued at which time a Transito unit arrived and hit [redacted] in the stomach with a closed fist. [redacted] was then transported to an unknown Transito Station in the vicinity of San Francisco. At the station the taxi driver and [redacted] again began to argue at which time a PDF member again hit him in the stomach with a closed fist and then requested his identification. After checking [redacted] identification he was transported back to Via Espana and released. A formal JC protest was forwarded to the PDF. (Codes 2, 5)

31. On 17 Oct 88, [redacted] entered a taxi on J Street and requested that he be taken to Rodman. After agreeing on a fee, the taxi driver turned in the opposite direction of Rodman. [redacted] feeling threatened, requested he be dropped off immediately. The taxi driver then stopped and demanded more money than agreed upon. At this time two PDF members approached the taxi; one positioned himself to the rear of the vehicle with his automatic rifle pointing at [redacted] and the other began conversing with the taxi driver. The PDF member then requested some money and he put one finger up. [redacted] offered $1.00 which the PDF then indicated he wanted $100.00. [redacted] was eventually extorted of $100.00 and was then driven by the taxi driver to Rodman. A formal JC protest was forwarded to the PDF. (Code 2)

32. On 22 Oct 88, [redacted] was forcefully removed (pushed, slapped and shoved) from a downtown Bar by four PDF members, he was suspected of having drugs. He was taken to a PDF station,

where he was initially denied access to a telephone. He was then transported to Bldg 4 - Fort Amador where he was denied the use of the restroom [redacted] then demanded he be released and was subsequently hit with a rubber hose by a PDF member. He was taken to night court where he was charged for disrespect to a PDF officer and fined 90 days in jail or $90.00. A formal JC protest was forwarded to the PDF. (Codes 2, 3)

33. On 1 Nov 88, a beheaded body methodically wrapped in plastic and white sheets etched with hearts, was found by the steps of Dr. Ostrandar's apartment. Located nearby was a .38 caliber cartridge and the head. Investigation suggest this incident was meant as a tool of intimidation. (Code 2)

34. On 11 Nov 88, [redacted] DOD civilian was detained at approximately 0930 hours, in the vicinity of the Presidential Palace and charged with espionage (one of the BIG five). He was drawing patches of the Presidential Guard uniforms, his hobby. He was taken to G-2, interrogated, taken to Bldg 4, to night court and then placed in the Modelo Jail. After five days of incarceration, [redacted] was released and charges dropped. A formal JC protest will be forwarded to the PDF. (Code 2, 3, 4)

35. On 13 Nov 88, [redacted] was detained by three DNTT Transito PDF members at the Omar Torrijos Airport for parking in a "no parking zone." He was instructed to follow the PDF vehicle to the Ancon traffic court, but instead was lead to a secluded area. A PDF member then demanded [redacted] to hand over his watch and ring which he refused. [redacted] was pulled out of the vehicle and beaten. [redacted] fought back causing a laceration to the face of one of the PDF members. [redacted] was forced to beg for his life at gunpoint -- the weapon was discharged towards Nieves' head. The PDF members fled from the scene. A formal JC protest will be forwarded to the PDF. (Code 2)

36. On 3 Dec 88, two marines, [redacted] and [redacted] were involved in a verbal and minor physical altercation with an unidentified driver in the vicinity of Central Avenue. As [redacted] and [redacted] were crossing the street they were approached by an undecisive driver. [redacted] questioned the driver as to his intention and then slapped him. At that time a civilian clothed individual, later identified as DENI Agent

Acosta, approached the scene to inquire on the incident and subsequently pushed [redacted] and drew his weapon (.38 Revolver) aimed it randomly at the US Forces members present, and slapped [redacted] across the head. [redacted] (US Forces member) disarmed the DENI agent because he felt threatened and due to the lack of identification on the part of the DENI agent. [redacted] and [redacted] were transported to night court, charged with disrespect to a PDF and attempting to assault and to disarm a PDF, charged $365.00 each and released to the military police liaison. A formal JC protest will be forwarded to the PDF. (Code 2)

37. On 25 Dec 88, at approximately 1900 hours, [redacted], [redacted] and [redacted] were detained near the Chorrera checkpoint at the scene of an accident. Due to it being night, [redacted] was forced to a halt coming to rest very near the pedestrians on sight. Someone in the crowd then accused [redacted] of having a weapon. A PDF member then approached the vehicle with a .38 caliber revolver cocked, and aimed it at [redacted]. After explaining the circumstances to the PDF member for the sudden halt and near miss of the pedestrian and that what was observed as a weapon was a shoe, the PDF member released the three US Forces members at the scene without charges. A formal JC protest will be forwarded to the PDF. (Code 2)

38. On 26 Jan 89, [redacted] was detained in Panama City while at his girlfriends house. He was detained at gun point and handcuffed for two hours face down on the floor. His girlfriend had been taken in for questioning. He was later transported to the PDF HQ and charged with trafficking international firearms. After requesting a military police liaison and receiving one, all charges were dropped and he was released. A formal JC protest will be forwarded to the PDF. (Codes 2, 3, 4, 5)

39. On 5 Feb 89, [redacted] was assaulted while in the custody of PDF DENI Agent Esposito and two other unidentified PDF members at the Colon DENI station. He was repeatedly kicked about the body and head, and beat with a rubber hose while handcuffed. He suffered a broken eardrum, bruised back, buttocks and hands. The US Military Police Liaison was denied access to [redacted] and was forced to summon help from the 8th PDF Co Liaison. A formal JC protest was forwarded to the PDF. (Codes 2, 3).

40. On 10 Feb 89, a US Forces Ambulance driven by [redacted] enroute to an emergency call from a possible dying patient, was detained on Curundu Road. [redacted] and another unidentified PDF SGT would not listen to [redacted] explanation of the emergency run. (PDF vehicle #49, license plate #716.) They were taken to the DNTT office where PDF LT Rodriguez stated that an Ambulance was always making emergency runs down the road. PDF LT Jaen issued [redacted] a ticket for "driving with emergency lights and sirens without a patient aboard". A formal JC protest was forwarded to the PDF. (Codes 1, 2, 4)

41. On 13 Feb 89, [redacted] was detained while birdwatching in the Tocumen area. While in PDF custody he was handcuffed, interrogated, physically assaulted and stripped-searched twice by PDF personnel. His personal belongings were searched and he was photographed with his birdwatching gear. The photographs appeared in the local newspaper "La Republica" accusing him of being a spy. In a related incident, on 20 Feb 89, [redacted] was detained for a traffic violation. Fearing mistreatment at the hands of the PDF he fled the scene towards Quarry Heights. [redacted] lost control of his vehicle, crashed into a wall and was required to be extracted by the fire department. The ambulance driver was forced, by a PDF riding shot-gun, to transport [redacted] to the Social Security Hospital. After SCPM intervention, [redacted] was transported to Gorgas Army Hospital where he underwent surgery. A formal JC protest was forwarded to the PDF. (Codes 1, 2, 3, 4, 5, 6)

Mr. **Dyson**. There is such a thing?

General **Jones**. There is a document that I am aware of with about forty-two instances in it. I see no reason why we cannot provide it to you, sir.

Mr. **Dyson**. OK. I would like it if we could have it for this subcommittee. General, our subcommittee is going to be having a hearing—we have not set the date—but I suspect in the next 2 weeks we will be asking you for it then too.

General **Jones**. Yes, sir. It lays out the nature of the incident, what the action was——

Mr. **Dyson**. The incidents.

General **Jones**. The incidents, and what the nature of them was.

Mr. **Dyson**. For instance, in the buses, it is my understanding there were twenty-two stoppages that day that the personnel there had encountered.

Ms. **Pope**. Not all were school buses.

Mr. **Dyson**. I think three school buses.

Ms. **Pope**. Yes.

Mr. **Dyson**. Was it three?

Ms. **Pope**. Three that were actually detained. We ended up not using the Panamanian buses until we were able to purchase buses. The students missed 2 days of school between March 6 and 14; the parents transported their children to scholl. March 15-17 were teacher in-service training days, and Easter vacation was March 20-24.

Mr. **Dyson**. While we are on that subject, and you do not have to give it to me right now, but I understand the cost of that substitution was just enormous.

Ms. **Pope**. DODDS did not incur any expense because the parents brought the students to school in their own vehicles.

Mr. **Dyson**. My recollection is it is on the order of something like $15,000 a day?

Ms. **Pope**. For the buses?

Mr. **Dyson**. For the home study.

Ms. **Pope**. No.

Mr. **Dyson**. Oh, excuse me. I am sorry. That was for the Commission's buses, I believe.

I have one other question, Mr. Chairman, if I may.

The Commission is withholding the taxes from its employees, and obviously they are going into this escrow account.

I assume Panamanians who are DOD employees are in the same kind of situation. You are withholding those funds, and they are also going into the escrow accounts. Is the Government of Panama threatening to prosecute any of them as they are—or have they as they have threatened the Panamanian employees who work for the Commission?

General **Jones**. I am not aware, but I probably would not have had access to that. What I would like to do is answer that question for you for the record, and go back and check through a couple of more sources and see if we have any instances of that.

Of those instances that I have read, there were none of those types of things, sir.

RECEIPT FOR TAXES PAID

The basic problem is that employees do not get a receipt from the Panamanian Government showing that their taxes have been paid. Because of that, the employees cannot leave Panama, they cannot register their cars, and they cannot file tax returns. Failure to file a tax return can eventually result in fines and penalties, just as it does in this country. Employees can receive such things as hospital care because we are paying the social security portion of the taxes withheld; it is the income portion that is not being paid.

Mr. DYSON. It would seem to me that probably that is going to be the next step if this thing escalates.

General JONES. Sure.

Mr. DYSON. It is happening now with Commission employees that are Panamanian.

General JONES. Yes, sir.

Mr. DYSON. I would assume that DOD is probably going to see the same.

General JONES. I am sure we will.

Mr. DYSON. The same thing.

General JONES. Yes, sir.

Mr. DYSON. Mr. Chairman—I'm sorry.

Ms. POPE. Oh, I was just going to add, Mr. Dyson, the only incident that I am aware of is some of our teachers that are living off base who are married to some local Panamanians. Their rents and their leases have been put in escrow. Their housing, their potential housing, has been jeopardized. There are threats that they may terminate it next month or the following month. So they are kind of living month to month in off-base housing.

Mr. DYSON. Well, I know that Congressman Ford of Michigan is putting together some kind of legislation which probably may get referred to me, probably to Chairman Hutto, and God knows who else, on that issue of the teacher employees of the Department.

Mr. HUTTO. Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman.

General Jones, you have a pretty awesome job, and I commend you for doing the best you can. You are working at some very difficult times now. But we are glad to have you here today.

General JONES. Thank you, sir.

Mr. RAY. I wanted to touch on just two brief items, a little bit on Panama and then talk about Greece to some extent.

General JONES. All right, sir.

Mr. RAY. Fort Benning, Georgia, is in my district and recently in a meeting at Fort Benning with some officers who at one time served in Panama, they told me that it has been a longstanding policy with the Army and the command in Panama to bail our people—our troops particularly—out of jail when they were arrested and put into the Panamanian jails by simply opening up the checkbook. These were instances where soldiers were arrested on a Saturday night. This particular officer said he was instructed to go down and pay the tariff, which many times was as high as $1,100. The money did not go into the Panamanian Government. In fact, he said that at a time when Colonel Noriega was at a lower level and not in the upper echelon on command, that he was the fellow they actually paid it to. Thousands upon thousands of dollars were actually paid to Noriega just to get our people out of jail there. It was kind of a blackmail-type of situation.

Was that standard policy, or would you have any knowledge of that occurring?

General **Jones**. I have no knowledge of that, Mr. Ray. I know these instances we are talking about. Soldiers have had to pay amounts of money—almost whatever they happen to have in their billfolds—to be released in many cases. So I would not be surprised, but I certainly do not have any knowledge of that event.

Mr. **Ray**. Would you make an inquiry to see if that has ever been standard policy with the Southern Command of the United States Army, to take military and army funds and pay it out in this type of blackmail or type of situation.

General **Jones**. Yes, sir.

Bail for U.S. Military Members

Before the treaty was signed in 1979, Government funds were occasionally used to pay bail for U.S. military members. Fines were not paid. Since the treaty was signed, no payments have been made for bail. The treaty says that members will be turned over to U.S. authorities, and no bail will be charged.

Mr. **Ray**. Check back.

General **Jones**. I seriously doubt it, but I would——

Mr. **Ray**. Get back to us. If that, of course, would be the case, it would simply have encouraged the situation that is there today, that we are at the mercy of a government down there which has no scruples.

In the situation in Greece, of course, President Reagan and the administration has made a lot about the fact that in the last 8 years is that there is one thing that we have gained around the world, and that is the return of our self respect.

General **Jones**. Yes, sir.

Mr. **Ray**. Recently members of the Readiness Subcommittee, under the direction of Mr. Leath were in Rota, Spain, and we were briefed by the Ambassador and the members of the State Department from Greece about the very deplorable situation that is existing there.

They informed us that our military people are fearful to venture out in uniform; that they have to change into civilian clothes; that as our military bases have deteriorated, we have been unable to repair them even to the pumping facilities, in some instances, in military installations. We have to carry water just to flush the bathrooms and things of that nature.

They tell us that the Greek Government has a procedure in which they impound the automobiles under certain circumstances, even though they are late model cars, because of thieves and so forth. These cars are put into a compound and the troops are not allowed to bring them home. Then somebody sells those cars as surplus cars as soon as they leave the country, and things of that nature.

They went on to name a great number of very humiliating and harassing situations that have taken place there.

It is my impression that we should give the Greek Government notice that we are not going to work under those type of situations.

But what is your opinion of the treatment that we are getting there? Is that on target or——

General JONES. I think you are right—exactly on target. I am not familiar with the impounding of the cars, but I commanded a unit down in Turkey a few years ago, and I was just in Greece in January of this year. I will tell you that everything you described is accurate.

Very, very difficult to—our agreements, the base negotiation agreements, have really spilled over even into our NATO sites over there, so consequently, even though the Department of the Army had allocated funds to upgrade all those sites as much as 10 years ago, when I was in Turkey in 1978, we had an improvement plan for Greece, Italy, and Turkey, all those remote sites. The ones in Turkey have all been built. New barracks, some facilities, sports facilities, for them to have things to do in their off-duty time. New mess halls, chapels, gymnasiums. None of that has been accomplished in Greece. None of that ever materialized.

So it has had a very, very negative impact. I would tell you that probably the most difficult place to serve right now is in Greece, both because of the physical situation and the security situation you mentioned. So it is not totally safe to be in certain locations in Greece right now. A very, very difficult tour.

Mr. RAY. Thank you, General.

Mr. HUTTO. Mr. Ray, you are entitled to an extra question today if you want to ask it.

Mr. RAY. Mr. Chairman, I will put a comment in the record. You mentioned the wall around Clark Air Force Base.

In 1986 I was a member of the Military Construction Subcommittee, and we came through the Philippines and found that the concrete block wall was three-fourths completed at that time.

We came back because of the real serious situation that we found. It was some sort of turmoil going on in the communities at that time. But a great number of squatters were living on Clark Air Force Base. A good many incidents of theft were taking place. We felt so concerned enough about it that we came back and were able to find $4 million in emergency funds to complete that wall at that time.

So I think the problems have been ongoing. Even 25 years ago there was a famous instance of a fire truck being stolen off Clark Air Force Base, so we know it has probably been going on over there for a long time.

Thank you, sir.

Mr. HUTTO. Thank you.

Mr. Machtley.

Mr. MACHTLEY. Thank you, Mr. Chairman.

General, I would like to continue on with Greece. Three years ago I lived immediately beside a family whose father and husband was a Navy captain. He was sent to Greece to relieve the Navy Attache who had been shot. Last year he was killed. He left a wife and a daughter.

I had long talks with him about his orders to go to Greece before he went. We now have lost two people in Greece. Are we sending someone else over there to be killed? Are we protecting them? What are we doing? I frankly do not think we can protect them.

General JONES. All the Defense attaches—we certainly have stepped up the briefings and the information, and encourage them to change their travel habits.

I would agree with you. It is a difficult situation. I know Capt. Nordeen was one of those people who was killed—passing an automobile that was filled with explosives and command detonated as he went by, on the way home, I believe.

Those types of things are very, very difficult. What we are trying to do is tighten security around the embassies, and things of that nature, but when they are out away from those locations, to and from the various activities around their housing areas, they are very susceptible to that kind of——

Mr. MACHTLEY. I certainly understand that military people are accepting a certain amount of risk. But we have just lost the last two people that we have sent over there.

General JONES. Sir, I understand there have been casualties.

Mr. MACHTLEY. How many people is it going to take until we concede that we cannot put a Navy Attache in Greece and expect him to come home alive?

General JONES. I could not answer your question specifically. When I was a commander in Turkey, I lost five people to terrorist activities. We are going to experience some of that. I think about the only thing we can do is try to increase the security as best we can. I think we do have to continue to have diplomatic relations and also military assistance with countries over there.

I wish I had a better answer, but I really do not have a good answer to give you on that.

Mr. MACHTLEY. Looking at the budget in a different area—we may have to make certain cuts.

General JONES. Yes, sir.

Mr. MACHTLEY. It would be great if we could add money to all of these things which would enhance the quality of life in the military, MWR—

General JONES. Yes, sir.

Mr. MACHTLEY. Commissaries, variable housing allowance. It is just not going to be a reality.

If you had to prioritize—and you said if you may have to cut. What would you not cut? What is the most important thing to keep quality of life, if there is such a thing, generally across the board?

General JONES. Well, I would tell you in priority, pay and compensation probably, if we believe our survey data, is very, very high. Our commissaries are very high. Housing is very, very high. Those would be three of the top priorities. I will tell you that all of the MWR activities certainly contribute to the readiness. The way they contribute to readiness is through the soldiers staying on active duty. Then we save the training costs, we save the recruiting costs, and we have the cohesion and the experience we need in our units.

All of them contribute to the readiness. All of them are certainly contributing, but specifically I would say pay and allowances, which includes VHA because we try to balance the amount of money that the soldier or airman, sailor, marine, has to pay out of his pocket—regardless of whether he lives in Los Angeles, Berlin, or wherever he happens to live. We are trying to balance that so we can equalize the amount of hurt on the individual, sir.

Mr. **Machtley**. In your testimony, you indicated there are 55,000 single parents.

General **Jones**. Yes, sir.

Mr. **Machtley**. Recently there was an article about a woman with a 6-month old baby who was not given a discharge and was going to be sent to Korea.

Is the Army changing its policy—or is the military changing its policy with these 55,000 single parents when they recognize that they cannot be fully——

General **Jones**. Commanders that we talk to, Mr. Machtley, are very concerned over single parents. Especially in overseas areas. The single parent has a difficult time, if they happen to be in the lower ranks, finding adequate housing that they can afford.

They do not have other family members with them there. If they have to go out on alerts or field exercises, unless they have some specific arrangement with some of the local nationals or some other spouse of a service member, they will not be able to go out and spend 2 weeks away from their family.

It is a major concern. We have looked at it. Even though some of the commanders have recommended that we not keep single parents in the service, we do not think we have that option. When they come in, they may not be parents, and to discharge people because they become parents I think would be a very, very controversial position to take.

So we are concerned. We are looking at it. We are looking at maybe not sending as many people overseas who are single parents and trying to keep a majority of them in the States, even though we cannot discriminate against them in assignment policies and say that they cannot go. Someone would view that as a hindrance to their professional development.

But we are looking at that and are giving it very serious consideration now. Yes, sir.

Mr. **Machtley**. Thank you.

Mr. **Hutto**. Do you have an additional question?

Mr. **Machtley**. If I just could ask one follow on.

Is the Army or the DOD looking at a policy of if a person does want to get out if they are a single parent family, particularly if they have an infant, giving them that option as opposed to saying, "You signed the Section VIII. You are stuck. You said you could go and——"

General **Jones**. I think you would see a very favorable reaction on a request from anyone at the present time if they put in a request like that.

Mr. **Machtley**. I can only tell you that there was an article in the *New York Times* that said the woman could not get out of the service. I checked and there were no extenuating circumstances.

General **Jones**. I am familiar with the case you are talking about. Yes, sir.

Mr. **Hutto**. Mrs. Pope, do you have any priorities to list as far as the budget is concerned?

Ms. **Pope**. No. But I would add, just to reiterate what General Jones has said, that we understand that these are tough budget times. I guess our request would be that there be some flexibility when those cuts come, let us make those priorities and give local installation commanders some authority, so whether it is MWR facilities or athletic facilities or day care, that we are able to respond to our troops' needs locally.

Mr. HUTTO. Thank you.

Mr. Kasich. Oh, you are sitting on the right. I always knew you were there, but I did not know you were that far to the right.

Mr. KASICH. Just testing it out. I am just testing it out over here.

Let me just ask you one question about the day care business. I am a very strong supporter of day care. I think nationwide we have a horrible problem, and I hope we can get it straightened out. That is a preface.

OK. The question I have is, the military people get child care, right? If you are in the military, General, your wife, for example, would get child care privileges that are coming to servicemen, is that not correct?

Ms. POPE. The family would get——

Mr. KASICH. Right.

Ms. POPE. I mean you do not get it automatically. There are waiting lists, and we do not have enough to go around, but——

Mr. KASICH. OK. But let us assume that you have that. Then you have civilian employees of the Department of Defense. Now, should those people be treated the same way? In other words, should the benefits that go to the military families be the same benefits that we give to employees of the Department of Defense?

The reason I raise that is when you are in the military you get to go to the PX. You receive many perks because you are in the military. I think that is good. But if you are not in the military, you do not get those perks.

When it comes to child care, should the civilian employees of DOD be treated just like the military families in DOD, or should they be treated like Federal employees in all other agencies?

Ms. POPE. I would think that for the most part, Day care has always been a readiness issue. We now have 55,000 dual career couples. We have another 50,000 single parents.

Child care is supported with a lot of appropriated funds. I personally do not think that we can equally prioritize both. I think we have got to provide it for our military families first. However, I do not think that we can say that across the board because on some installations there may be more civilian families, and maybe single civilians, and they may be equally important.

I do not think I can answer this across the board in every place, but I think for the most part providing day care for the military is more important.

Mr. KASICH. Well, what if you were going to write a law.

You all of a sudden were a member of this committee and somebody was proposing that we spend a lot of money, $150 million, to do for non-military families what we do for military families. How would you vote on that law?

Ms. POPE. I do not think we can totally subsidize all of it. I think there needs to be a priority. I think we are all facing tight budgets. I think we have got to prioritize where our needs are first, and depending on what those priorities are, satisfy the top priorities. Then, what we can, go down.

Mr. **Kasich**. I would like to ask one last question, Mr. Chairman.

General, I have never understood why we move people around as much as we do in the military. Why is it that people are always moving? Every time—3 years, move again. That to me costs a lot of money. It is disruptive to kids. It is disruptive to families. Why not let people stay places for a longer period of time?

General **Jones**. Well, we have a couple of reasons for that. We are trying to extend the time on station longer to save PCS costs. But a war-fighting effort primarily is overseas in Europe, so in order to acquaint those people with the situation in Europe, we need to send people over there.

About 42 percent of our forces are located outside the Continental U.S. Consequently, the CONUS is used as a sustaining base. The CONUS-based forces include the people that we send to school. At any one time, anywhere from 14 to 18 percent of our forces are in some type of professional development course. It might be noncommissioned officers in one of their courses. It might be young officers in basic courses or more senior officers in the senior service colleges. If you take the 42 percent we have overseas and then you take about 14 to 18 percent, and then some of our locations have 3-year tours overseas. Most families do not want to be out of the Continental U.S. longer than that. So we get this rotation about every 3 years. That is about all the system will stand.

It would be unfair unless you encourage overseas extensions. If anyone wants to stay overseas longer than the prescribed tour length, we normally will approve that. We try to approve those in the Continental U.S. if they want to, but there is a sequence of things. The professional development of the individual, and the requirement to go overseas dictates that we move people as often as we do.

Mr. **Kasich**. Thank you, Mr. Chairman.

Mr. **Hutto**. May I ask the gentleman—are you planning to introduce a bill to provide day care for civilian employees?

Mr. **Kasich**. No. Mr. Chairman, those questions are at the prompting of certain staff members——

Mr. **Hutto**. Oh, I see.

Mr. **Kasich**. Who phrase these issues——

[Laughter.]

Mr. **Hutto**. I understand.

Mr. **Kasich**. The power up here is in the staff. So if you do not accommodate those people, you are nothing.

Mr. **Hutto**. I understand. Let me editorialize a little bit on child care. This is my personal opinion, and I realize in today's world that there are situations where you have to do something with the kids.

But one of the tragedies of our time is the fact that youngsters are not growing up with their parents. It is being reflected in tremendous costs because they get on drugs, they have no feeling of belonging. I would encourage you to look for ways to try to keep children with their parents. I think that that would save us a lot of money all around.

With that, let me ask one more question for the record here before we dismiss you.

Your statement on page 14 says the recent court decisions now require the DOD to bargain with the employees and unions regarding the use of military exchanges and MWR activities.

It is my understanding that patron eligibility for these programs are set by this subcommittee and DOD policies and directives. In general, the patron must have an ID card.

Would you explain the nature of these court decisions? What programs are being affected? Explain the rationale as to why personnel other than those with military ID cards are being permitted to use these programs?

Ms. POPE. Mr. Chairman, I will address part of it first, and that is on the day care and the recent Court decision against the Air Force. I think some things are being decided outside of DOD. I mean obviously the Air Force union took the Air Force to court, and the District Court ruled that they could negotiate for day care.

I think it was at the Air Force Logistics Command, was it not, that they won that?

So now the Department of the Air Force has to provide day care on, I think, eight installations for civilian employees.

Mr. HUTTO. That goes back to Mr. Kasich's questions.

Ms. POPE. Yes.

We note that that was not a DOD decision. We are under a court order to respond to that. To look at providing affordable day care. So those are some decisions that are beyond our authority as far as what has been determined to be a negotiating item.

[The following information was received for the record:]

General JONES. The nature of both the court decisions and rulings of the Federal Labor Relations Authority (FLRA) is that, in the absence of statute, the Department of Defense (DOD) has no compelling need to prescribe uniform and consistent patronage policies for MWR activities. To date, we have several decisions that affect military exchanges and child development centers. In essence, the courts have ruled that patron privileges for these activities are conditions of employment for DOD civilian employees and that DOD has a duty to bargain with some 1,750 collective bargaining units throughout the Department.

Patron eligibility for military exchanges is not the same as for open messes (clubs), or for libraries, or for child development centers. Per guidance from the Congress, patronage at military exchanges is more restrictive than for other MWR activities and, in general, requires an ID card. While this is not the case with other MWR activities, the Department's position has been, and remains, that there is a compelling need for uniform and consistent patronage policies for each MWR activity, or for each type of MWR activity, throughout the Department. In other words, military exchange patron policies should apply to all exchanges, child care policies should apply to all child development centers, and so forth. Deviations or exceptions can be accommodated for good and proper reasons, but we believe that there should be consistent policies throughout the Department.

Mr. HUTTO. Where was this court case?

Ms. POPE. I think the court case was outside of Macon, Georgia. That was where the court decided the case.

Mr. HUTTO. OK. Thank you. We will need to get more information on that.

One other question. Earlier in hearings the subcommittee heard representatives from the DOD school system, and I do not believe there was a complete understanding as to what the differences are between Section VI and Section X schools. Would you explain the differences?

Ms. Pope. Certainly, certainly.

Section VI are the schools within the continental United States and Puerto Rico that DOD actually operates. We fund for the buildings. We pay for the staff. We actually fund for those schools through DOD.

Section X schools refer to the schools that come under the Department of Education, that the local education agency runs. They are Department of Education facilities that are on military installations. It is part of what precipitated the Dole report last year when it turned out that the Department of Education was not funding for these public schools that are serving military kids on military installations. They were coming back to the Department saying, why are you not funding for it? We have no authority to fund for it. So we have been working with the Department of Education and the States to come up with joint funding to repair these facilities.

Mr. Hutto. All right.

Thank you very much, General Jones and Mrs. Pope. We appreciate very much your testimony and your response to our questions.

We will have more questions to have you respond for the record please.

Thank you very much for being with us.

General Jones. Thank you, sir.

[The following questions were submitted to be answered for the record:]

Question: The Federal Labor Relations Authority (FLRA) has ruled that civilians at Air Force Logistics Commands (AFLC) child care is a condition for employment. Generally, military child care facilities and programs are full with long waiting lists. In your statement you mention that "Demand exceeds capacity by more than 50 percent." The General Accounting Office, in its September 15, 1988 report, states that the exact nature of civilian child care in DoD is unknown. Should the existing military child care system be integrated or combined with a civilian program? Are the requirements, level of priority, and needs the same? What happens when the rule is expanded DoD-wide?

Ms. Pope: DoD is experiencing an increase in dual military couples, single parents, and employed spouses in its workforce. Availability and affordability of child care services is a readiness issue for our military personnel and a productivity issue for our civilian personnel. DoD's position is to provide child care services to military and civilian personnel, with priority to Service members. Currently, about 10% of child care spaces in military child development centers are occupied by children of civilian personnel, enrolled on a space available basis.

Military Service members move frequently throughout the world. About one-fourth of military families live overseas and report that off-base child care is not available. Because of these conditions, military families are not able to get on waiting lists for off-base child care and do not have an extended family in proximity to offer support and care in time of need. Civilian personnel in general are not required to relocate, many have access to their extended family, and they can enroll their children in non-military centers. Because of already existing shortages for military members and budget constraints, DoD cannot equally prioritize child care services for civilian and military. The Department, however, is moving forward with creative and new initiatives to meet our civilian needs, such as:

- Utilization of 10 USC Section 2809.
- Expansion of family day care homes.
- Additions to existing facilities.

As for the Air Force Court Ruling, DoD is studying the issue for DoD-wide impact and will make further decisions based upon an assessment of the legal opinion. Although we don't know the extent of our civilian child care needs, we estimate that there are about 30,000 civilian children who need care.

Surveys on PCS Moves

Question: On page 10 of your statement you mention that surveys are under way with regard to personnel PCS moves. In addition, surveys made by the Air Force suggest that we are reimbursing our people for only one dollar of every three they actually spend.

Would you expand on this statement and try to give the causes for why there is such a difference.

General Jones: The Air Force has conducted PCS cost surveys for several years to gather information concerning actual expenses reasonably incurred by members making PCS moves compared with their reimbursements. Factors examined include the expenses related to vacating housing, finding new housing, initial occupancy expenses, expenses for temporary lodging and meals, and excess household goods weight charges. The last survey, of course, did not include the new household goods weight allowances that will become effective this summer. To provide current, comprehensive, and uniform data for all Services, we plan to survey about 40,000 active duty members making various kinds of PCS moves. We want to compile data, stratified by paygrade and dependency status, to delineate and measure the categories of unreimbursed expenses. We expect to have an interim report on the survey late this fall and a final report next spring.

Question: Last year the Congress moved to extend commissary shopping privileges to the employees of the Panama Canal Commission. Given the situation in Panama, are there any plans to increase the commissary shopping privileges for Americans living there?

General Jones: At the time the local Panamanian supermarkets/grocery stores were closed, there was considerable discussion between this panel, DoD and Department of State regarding commissary benefits. State Department voiced concerns that the 1979 treaty transferring the Panama Canal to Panama required employees of the Panama Canal Commission (PCC) to be supported on the local economy. With the closing of local markets this alternative was no longer available. The agreement between the panel, State and DoD was that for the duration of the emergency situation, as determined by the Administration, U.S. employees of the PCC would be authorized the use of exchange foodland outlets. That privilege has continued to date and there are no plans to discontinue that benefit pending resolution of the current situation.

Question: Military clubs have had a long military history. In 1986 the total amount of appropriated fund support provided clubs was about $207 million. In Fiscal Year 1991 the clubs are essentially to be self-sufficient without taxpayer support. What are the problems associated with operating military clubs, and what is their future? If military personnel do not support and use their clubs, then why should tax dollars be spent to keep them open?

General Jones: We believe that military clubs can be made relatively self-sufficient in accordance with congressional guidance. All clubs will, of course, continue to get indirect appropriated fund (APF) support. And clubs overseas or in remote and isolated locations will get some direct APF support as well. Most of the problems associated with clubs are as a result of a change of military lifestyle. Many military personnel now have automobiles. The career force is mostly married. Civilian communities near military installations have become increasingly urbanized and now offer many social and food service alternatives. Even on-base, there is frequently a preference for fast food, rather than club dining. Eating and drinking habits have been moderated as a result of health education and promotion programs. The focus of clubs must now change to meet the needs of this highly mobile, well-educated, largely married force. We believe this can be done within the funding constraints set forth by the Congress, but it does pose a very real challenge.

Moving American Military Families in Panama

Question: The subcommittee has been advised that the U.S. military is moving more American military families from Panama onto base.

Are these people being moved into secure housing areas or are they being moved into areas that are still accessible to the Panama Defense Forces?

General Jones: Not all of the Government family quarters are in secure areas. Compared with housing on the local economy, however, they are significantly less dispersed and are therefore much more easily and effectively patrolled by U.S. forces.

Question: Several years ago the Congress passed laws providing preference for the hiring of military spouses. Would you please describe the effects of the legislation and has the spouse preference increased demand on military child development centers?

Ms. Pope: The legislation brought about an intensive Department-wide program to accord employment preference to military spouses. To date, some 27,000 spouses have been appointed under the preference. Overall, some 60,000 military spouses are in DoD Civil Service jobs worldwide. DoD has experienced growth in the number of spouses in the labor force over the last 10 years, as has the private sector.

Spouse preference has not necessarily created a greater demand for childcare--these spouses would eventually find employment. The effect has been an easier relocation for 27,000 spouses, more immediate placement in positions, and better career opportunities. The increasing numbers of single parents in the military are placing greater demands upon military child development centers at some installations. We must continue to address this problem.

Question: In your prepared statement you mentioned that the DoD is supporting the construction of multi-purpose buildings to provide morale, welfare and recreation programs. Do you envision integrating appropriated funds and nonappropriated funds when developing these projects?

General Jones: Yes. A copy of guidance from the Assistant Secretary of Defense to this effect, dated March 3, is attached.

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-4000

FORCE MANAGEMENT
AND PERSONNEL

13 MAR 1989

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (MRA)
ASSISTANT SECRETARY OF THE NAVY (M&RA)
ASSISTANT SECRETARY OF THE AIR FORCE (M&RA)

SUBJECT: Guidance for Morale, Welfare, and Recreation (MWR) Construction Programs

This memorandum provides general guidance for developing your FY 1990 and out year MWR construction programs (MILCON and NAF) and for execution of current year construction projects.

For several years the Congress has insisted that the Department develop consistent, coherent, strategic MWR policies that incorporate both construction and operational considerations. In a letter of October 13, 1988, to the Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy, Chairman Leath of the MWR Panel, Readiness Subcommittee, HASC, said, "We are convinced that, as long as construction requirements originate and are validated at the base level and lack consistent and strong central management and oversight, we may be backing the program into a corner with closure and curtailment of services being the only way out." Clearly this direction requires the institution of some basic approaches, principles, and procedures throughout the Department of Defense at all levels of command.

The guiding principle for proposing MWR construction projects is to meet the needs and expectations of our Service members and their families in the most feasible and cost effective manner possible. Research efforts that ask military members and their families what they want or expect from morale, welfare, and recreation (MWR) programs will be utilized in the planning process.

MWR facilities on a military installation should be comparable to those found in a similar size American civilian community. Consideration should be given to construction of multipurpose facilities, akin to newer municipal recreation centers and college student unions, that are designed for optimum use. Central facilities make MWR programs both efficient and economical to operate. Since most multi-use facilities will include revenue generating activities such as fast food counters, delis, dining rooms, concession areas, sports bars, and amusement machines, proportional use of APF and NAF is authorized for construction.

MWR facility needs must be incorporated into the respective installation's master plan. This will ensure that proposed MWR construction projects fit into the overall plan of the installation and effectively serve the Service members and their families. Addressees should ensure that master plans and proposed construction projects are evaluated and justified based on (1) proposed purpose/functions/use of the facility; (2) facility(ies) to be replaced; (3) projected patronage/sales; (4) return on NAF investment, if applicable; and (5) annual APF costs and savings. We recommend the use of commercial market research firms to plan and verify construction projects. This approach can have substantial payback as evidenced by the Army's analysis of patron needs for $104.8 million of proposed FY89 MWR projects. Rescoping of these projects, based on patron desires, resulted in a cost reduction of $36.2 million.

The pursuit of privately-financed facilities wherever feasible and cost effective is encouraged. Privatization strategies outlined in the DoD report to the Congress dated September 25, 1987, should be of value to you in this regard. Privately financed construction projects will be reported to the Congress in accordance with DoD Instruction 7700.18, "Nonappropriated- and Privately-Funded Construction Projects - Review and Reporting Procedures," dated May 12, 1983, and DoD Directive 4165.6, "Real Property Acquisition, Management and Disposal," dated September 1, 1987. The attachment outlines the data that are to be reported to this office and the House Armed Services Committee a minimum of 2 weeks prior to award. Privately financed projects listed in the FY89 DoDI 7700.18 report, deferred by the HASC, may proceed provided that 2 weeks advance notice is given regarding terms and conditions and that this office or the Congress has no objections to those terms and conditions.

Efforts must continue to be made to reduce the elapsed time between project concept and acceptance of the facility. You should continue to look for ways to better execute the program and quickly provide the MWR facilities to improve service to our military members and their families. Use of quality architect and engineering firms and construction contractors, state-of-the-art design techniques, and the best available contracting methods should be considered to better execute construction. Each addressee will ensure that NAF projects are monitored at Service Headquarters or Military Department level and that periodic assessments are made of progress and projected versus actual costs.

In addition to the above guidelines, reviews should immediately be undertaken on planned or on-going MWR construction at those military installations proposed for closure or partial closure and for those installations slated to receive additional personnel as a result of base realignment during the FY90-95 period. For all bases recommended for closure or draw down, defer all maintenance, repair, or construction work that is not of an emergency nature or that will not be needed if the base closes. If you find a deferral is uneconomical, the work may proceed. We will not know for sure until late spring whether these bases will actually close or be drawn down.

This memorandum has been coordinated with the Office of the Deputy Assistant Secretary of Defense (Installations).

Grant S. Green, Jr

Attachment:
As stated

REPORTING PRIVATELY-FINANCED CONSTRUCTION PROJECTS

Prior to contract award, this office and the HASC will be provided a minimum of two weeks notice of the terms and conditions, to include the following:

- length of contract
- scope of work
- type of business or activity
- APF and/or APF support to be provided to the contractor over the term of the contract
- return to the DoD and/or the NAFI (e.g., fees or percent of sales payments to be made by the contractor) and
- benefit to the government (as contrasted with direct operation or other alternative)

The prospective contractor will not be identified prior to award.

Attachment

Question: Base closure and realignment legislation is currently before the Congress. Our military personnel and their families have made a considerable investment in nonappropriated funds for the construction of facilities on these bases and will be asked to invest more as bases in other areas expand as a result of the legislation. For example, commissaries at two bases targeted for closure -- Fort Sheridan and the Presidio of San Francisco -- represent an investment by soldiers of over $17 million. Does DoD have any plans to provide compensation to either the nonappropriated funds or commissary surcharge funds for the loss and expansion of these facilities?

General Jones: Yes, we have identified over $160 million of NAF and commissary surcharge-built facilities on bases scheduled for closure or draw-down. My office is working with the Base Closure Commission to ensure that NAF and commissary surcharge funds are properly accounted for and are used to expand facilities on installations that will receive new missions and additional personnel.

Question: We understand that the Department of Defense Dependents Schools overseas are considering having the Army and Air Force Exchange Service provide school lunch monitors. Isn't this a responsibility of the school? Why would AAFES be required to provide this service?

Ms. Pope: Yes it is, and it is assumed by the school staff. School principals commonly supervise lunchrooms; teachers assist with lunchroom supervision; and teacher aides are sometimes available for this duty. The need to provide teachers with a duty-free lunch period remains a problem; therefore, we have considered alternatives such as attempting to include monitors in the AAFES contract.

The reason that DoDDS has explored the possibility of contracting with AAFES to provide monitors is that DoDDS staffing ceilings virtually exclude the possibility of hiring lunchtime monitors as is the common practice in the U.S. school systems; however, they do not preclude extending the workday of part-time employees. There are, in fact, many instances in which employees working part-time as teachers aides can add lunchroom monitoring to their assignments without resulting in use of additional manpower spaces. Committees of both houses of Congress reviewed this issue in 1986. While there was support for exempting the hiring of lunchroom monitors from manpower ceilings, the ceilings continued to be in effect under the Defense Reorganization Act of 1987 (Goldwater-Nichols).

Question: We understand that DoD Dependents Schools overseas may not be receiving adequate allotments of surplus commodities from the Department of Agriculture? What is DoD doing to ensure that prices charged for school lunches overseas are the same as in the United States.

Ms. Pope: The Army and Air Force Exchange Service (AAFES) is the school feeding authority for all of the DoD schools on Army and Air Force bases overseas. They receive the same commodity entitlements as schools located in the United States. Each year the U.S. Department of Agriculture (USDA) publishes the entitlements in the Federal Register. This year, the entitlement is $0.1225 per meal served, and AAFES received $708,000 of entitlement money for Group A and B commodities. Group A includes fruits, vegetables, chicken, beef and other meats. Group B includes vegetable oil, shortening, oats, rice, spaghetti, corn meal and flour (flour is known as a threshold item; if you have used all of your Group B entitlements, you can receive any amount of flour that you can use if it is available). In addition, we receive bonus items: cheese, butter, nonfat dry milk and honey. Bonus items are not provided on a per meal basis; we are authorized as much as we can use if it is available. This year there were caps placed on some of the bonus items because of shortages. AAFES uses all of the entitlement money and requests as much of the bonus commodities as they can use in the school lunch program. They also have received rebates on donut mix through the National Commodity Processing Program for mix bought from a supplier. The total value of Group A, B, and Bonus commodities received this year is approximately $2 million. In addition, AAFES receives cash payments from the USDA. The payments are $0.14 for every meal served, plus $0.9214 for every reduced price meal and $1.3225 for every free meal. As of the end of March, 84 percent of the meals served were full price, 9 percent were reduced price, 7 percent were free and AAFES had received $1,463,000 in cash payments from the USDA. The lunch is eligible for the same level of commodity support as U.S. schools and is receiving the same level as far as we can determine. However, we do not have specific information available on exactly how much support individual school systems receive.

The Department of Defense is aware that, in addition to the USDA commodity and cash subsidies, school districts within the United States receive state-provided subsidies. We have been looking at alternative ways to absorb the difference between the costs of preparation, after taking into account the USDA subsidies, and the average rate charged by schools in the U.S. We are working with the OMB to determine which alternative to pursue.

Question: We noted that a child care center opened to support the Pentagon using private funds for construction and operation. Would you please describe this concept and tell us about any plans to expand it to other areas of the Armed Forces?

Ms. Pope: 10 USC Section 2809 is a test of long-term facilities contracts which permits the Department of Defense (DoD) to award contracts for the construction, management, and operation of several types of facilities, including child care, on or near a military installation. The 2809 is a Service contract and can be written for terms of up to 32 years. One provision of 10 USC Section 2809 is that it must be cost-effective when compared with other means of acquiring the facility. The 2809 contracts have the advantage of being quick. Child care services can be built and operated within one year from the date of award. Using this authority, DoD has successfully contracted out for two child development centers:

- Pentagon.
- Tracy Depot, California.

DoD is actively encouraging each of the Services to look at one or two pilot projects.

Mr. **Hutto**. Before we will call up our next panel, we are going to have a 5-minute vote here apparently. A quorum call.

We will call up the next panel and then we will recess for about 15 minutes until we go vote.

The next panel will be Sgt. Maj. Julius W. Gates, Department of the Army; Master Chief Machinist's Mate Lewis M. Sikes, Jr., Fleet Master Chief, U. S. Atlantic Fleet, Department of the Navy; a Chief Master Sgt. James C. Binnicker, Department of the Air Force; and Sgt. Maj. David W. Sommers, the U.S. Marine Corps.

We appreciate very much you gentlemen coming and are sorry to delay you, but we will go vote and then we will be back.

The subcommittee stands in recess for about 15 minutes.

[Whereupon, at 3:25 p.m., the subcommittee recessed for a roll call vote.]

Mr. **Hutto**. We will resume our sitting.

We are very pleased to have the panel of enlisted personnel from the Army, Navy, Air Force and Marines.

Gentlemen, we will let you proceed as you see fit. We are looking forward to hearing from you.

Do you have statements?

STATEMENT OF CHIEF MASTER SGT. OF THE AIR FORCE JAMES C. BINNICKER, UNITED STATES AIR FORCE

Chief Master Sergeant **Binnicker**. Yes. Mr. Chairman, I do not have an opening statement. I would confine my remarks to thanking the committee for its support in the past for our quality of life and MWR programs, and seek your continued support of those very valuable programs, and I welcome any questions that the panel may have.

Mr. **Hutto**. All right. Thank you, Chief Master Sergeant Binnicker.

PREPARED STATEMENT OF CHIEF MASTER SERGEANT JAMES C. BINNICKER

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the most pressing issues facing the enlisted members of the Air Force. Let me start by thanking you for your past support for people programs. They have allowed us to build the best Air Force in the history of this country, and, to my mind, the world.

The enlisted men and women of the Air Force are top quality and they are ready to do their job of defending this nation. They are committed to readiness and training and their enthusiasm is boundless. As I travel, they continually impress me with their dedication, patriotism, loyalty and desire to do the absolute best they can.

The Air Force is committed to maintaining this level of quality. We strive to recruit the best, and then we train them to be prepared. However, to retain them we must have a compensation and benefits package which recognizes their mission. It must not only compensate them equitably and fairly, but must also provide for their families and their future.

Our members are well aware of the problems this country faces because of the deficit and they have accepted the budget cuts over the past several years as necessary. However, as a result of conversations with the troops over the past three months, I believe we may have turned down the same road we did over a decade ago. The tones and questions are beginning to sound the same as those I heard in 1977 and 1978.

In 1979, a combination of economic factors, successive military pay caps, and expanded private sector job opportunities drove many of our most talented and experienced noncommissioned officers out of the service. Similar conditions are appearing today. Despite good overall retention, shortages do exist, particularly in our high-tech and sortie-generating skills. Members with these skills are being offered lucrative opportunities with commercial companies. We must remember that low retention results in lower experience and increased training and replacement costs. Therefore, we must emphasize retention as we evaluate priorities within the budget.

What is it that our people want? They want a standard of living that is commensurate with the mission they perform and equal to the nation they defend. They want a predictable, dependable, and equitable compensation and benefits package.

THE MAJOR ISSUES PLAGUING THE ENLISTED FORCE TODAY ARE:

PAY AND ALLOWANCES
HOUSING
MEDICAL CARE
PERMANENT CHANGE OF STATION COSTS
RETIREMENT
FAMILY MATTERS

PAY AND ALLOWANCES. Why is a military pay raise needed? Our members know their pay has not kept pace with either their civilian counterparts' or inflation. The comparability gap stands at 10.1%, and pay lags inflation by 1.2%. These numbers are bad enough; however, they point to a larger problem--the unpredictability of the current pay raise mechanism. Our members deserve and want a system upon which they can depend for fair and competitive raises and which will, at a minimum, preserve their standard of living.

A recent survey revealed that retention impacts may soon be felt because of the lag in pay. Over 60% of members surveyed believed higher-paying jobs are readily available in the private sector. With a 1988 unemployment rate of 5.5%, they may be right. Also, over 70% believed private sector pay and benefits are generally better than military compensation.

The stage is being set for our members to leave the military as their predecessors did in the late 1970s. Loss of purchasing power erodes our people's standard of living; lack of pay comparability with the private sector tells them they can make more money in the civilian economy; and low unemployment makes jobs readily available. The enlisted force knows these facts and they know history. They ask why they should stay and accept compensation policies that cap their pay and erode their standard of living--signals that their service is not valued.

Accordingly, the 3.6% pay raise contained in the President's Budget is a bedrock necessity. Anything less will further erode not only our members' purchasing power and their standard of living, but it would send a signal that until we again lose vast amounts of experience, fair and competitive raises will not occur.

HOUSING. The issues of adequate on base housing, and affordable housing for members residing on the economy, is becoming more critical to the troops everyday. Any measurement of a person's living standard must include their housing. Our members living on-base deserve family housing that is comparable in amenities and size with the civilian world. Many of the current housing units are 30 to 35 years old and are too small, have too few bathrooms, and lack adequate kitchens (including a dishwasher) and family room. When on-base quarters are not available, our people need a housing allowance system which compensates them at a suitable level for the area to which we order them for duty.

The number one issue for our airmen in the barracks is privacy. They want to be able to sleep undisturbed and know their belongings are secure. They do not want to share bathrooms. When we cannot provide quarters for these members, we must ensure they receive allowances sufficient to rent affordable and adequate accommodations.

The solution to these issues lies in a variety of fixes. We must have a military construction budget which allows us to update military family housing. This must also include new and innovative financing methods. We should embark on a gameplan to provide private rooms and baths to our members in the barracks. Finally, we need allowance systems which permit all members to obtain adequate housing for themselves and their dependents, regardless of the location to which we assign them. The Overseas Housing Allowance system is serving its purpose. Within the United States however, we need an uncapped Variable Housing Allowance (VHA) system.

I realize the VHA is an allowance; however, it directly impacts our members' housing decisions. VHA is designed to recognize that the military orders members to move between areas with very different housing costs. It was designed to ensure that members can afford adequate housing regardless of where we assign them in the continental United States. However, since first authorized in 1980, this allowance has been totally restructured, and rates have either been frozen or limited by unrealistic expenditure ceilings. Basically, it has not been allowed to function as intended. In addition, Alaska and Hawaii (treated as overseas locations for almost all other purposes) have been added to the program, and an "Offset" has been required from members who find housing for less than their allowances.

Based on these factors, our members no longer believe the VHA system is working. I can explain the ideal, but not the reality. On 1 Jan 89, 68% of Air Force VHA recipients had their rates reduced. Fortunately, with the increase in basic allowance for quarters, two out of three members received an overall increase in housing allowances. Still, almost 3% of our members took a net pay loss after the VHA adjustments. Without any hesitation, I can say that one-third of our members did not have their rent reduced on 1 Jan.

We need your support to allow the program to operate as intended when it was restructured in 1985. The basic allowance for quarters should cover 65% of the national median housing costs by grade and dependency status. The member should be expected to pay 15% of the national median and VHA should then pay the member for the difference between local median housing costs and 80% of national median. That is the ideal. The reality is that today the average member is paying 21.5% of housing costs from basic pay. For our enlisted troops, this is a significant added financial burden to place on a compensation package already feeling the eroding effects of inflation.

The solution is two-fold. The first is your support of the 3.6% variable housing allowance (VHA) inflation increase in the President's Budget. Secondly, we urge you to refrain from imposing any expenditure ceilings on VHA in the Appropriations Act.

MEDICAL CARE. For many years, our military members claimed that we said we would take care of their medical needs, plus the medical care of their dependents. Now, we are accused of reversing this decision when we ask them to check the fine print--care for your dependents and for you following retirement is on a space available basis. In today's medical environment, facilities for dependents and retirees are strained to the breaking point. We require them to use the increasing high-cost

CHAMPUS alternative or wait for extremely long periods at military treatment facilities. Our members believe they have been lied to, even though care for non-active duty dependents has always been provided on a space-available basis.

I know many programs are under consideration to provide adequate medical care to our members and their dependents. However, the Force wants an answer. They want to be assured that their dependents will have medical care available regardless of where the member is stationed, and they want to know what will be available for them and their dependents upon retirement. They want and deserve a firm commitment.

Regarding the proposed two year test of a medical user or co-payment fee, I find it difficult to logically explain it to the Air Force enlisted member. They view it as another slap in the face. The idea of a test only adds to their apprehension about the reliability of medical care for them and their dependents. They ask whether or not they should consider medical benefits in their career decisions.

On a positive note, the Dependent Dental Plan implemented in August, 1987, has been well received by our members and their families. This plan provides the basic dental needs for dependents of active duty members. We thank the Congress for this benefit and your support.

To improve the medical care provided our members and their families, the Air Force solicits your assistance in funding all initiatives to improve medical care. After studying all the options, we will determine the best alternatives, and then we will ask you to guarantee our members the future of their medical benefits. They deserve this guarantee.

PERMANENT CHANGE OF STATION (PCS) COSTS. On 1 July, we will implement new household goods weight allowances for the majority of our members. Congress' approval of this initiative last fall is viewed by our members as a major improvement in PCS allowances and is greatly appreciated by the military member. However, our members will still incur significant out-of-pocket costs incident to a government-directed PCS moves. Surveys of Air Force members continue to show that for every $3 the member spends on a PCS move, the Government reimburses only $1--real time negative compensation. OSD is now looking more closely into this issue with an extensive survey of members in all Services making a PCS move. Results are anticipated by the end of the year.

In 1986, the Armed Services Committees increased the dislocation allowance (DLA) payable for PCS from one month's basic allowance for quarters (BAQ) to two months' BAQ. The DLA is designed to reimburse the member for miscellaneous expenses incurred incident to establishing/disestablishing a home. While two months' BAQ is authorized, the annual Appropriations Acts have limited payment to one month's BAQ.

RETIREMENT. Commitment is the key when we discuss retirement. Air Force enlisted members do not believe they have a retirement system upon which they can depend. Over the past ten years, the retirement system has been repeatedly modified--always downward. The troops want a system upon which they can plan their futures. They need to be able to tell their families that following twenty or more years of service, they will have a retirement check that will maintain its full value each year. They want to know that their standard of living will not decrease each year following retirement and that in return for their commitment to defend this country, the country will honor them with a dependable retirement system. Is this too much to ask?

In the past, the retirement system has been a major drawing factor for members to make the military a career; we are now hearing discussions that the uncertainty of the system is a demotivator. We solicit your support to honor past commitments and to guarantee a permanent retirement system for all military members.

FAMILY MATTERS. Air Force leadership recognizes that families have the major voice in career decisions. Therefore, they have a direct impact on readiness. With two-thirds of our members having family responsibilities, we know that the well-being of the family affects the morale and productivity of the military member. In today's environment, it is essential that we consider the family in our decisions. This only supports the need for adequate pay, housing, medical care, PCS reimbursements and a stable retirement system.

In recognition of the impact of the family, the Air Force is establishing Family Support Centers at 123 major installations. These centers identify, develop and coordinate programs that improve the well-being of the family. They assist in spousal employment, financial counseling, relocation assistance, and other areas that play a part in the attitude and well-being of the family.

Feedback from the Senior Enlisted Advisors of the Major Commands shows that the Family Support Centers are having a positive impact on our members and their families. The Advisors and their bosses, the Commanders, are anxious to have centers open on all their bases. Accordingly, we hope you will assist by ensuring requested funding for Family Support Centers is approved.

CONCLUSION. Naturally, there are other issues being discussed by Air Force enlisted members; however, I have covered the major ones. They all appear to revolve around the issue of commitment.

Air Force enlisted men and women are committed to defending this country, to include giving their lives if necessary. They are top quality and they are trained to do their job. They want to serve their country and they will.

Still, they have started to believe that the people who control their lives do not feel committed to maintaining a decent living standard for military members and their families. They justify their position by citing pay caps, inadequate housing and housing allowances, undependable medical care, inadequate reimbursements for permanent change of station, and talk of more changes to the retirement system.

While you make the hard decisions you must to resolve the deficit problem, I hope you remember the dedicated members standing guard to protect this country. In your decisions, please consider the mistakes made in the late 1970s, and the tremendous costs associated with recruiting and training the new members on board today. Give them a predictable, dependable, and equitable compensation and benefits system and they will stay as your guardians.

STATEMENT OF SGT. MAJ. OF THE ARMY JULIUS W. GATES, UNITED STATES ARMY

Sergeant Major GATES. Mr. Chairman and committee members, I do have a short opening statement that I would like to make.

Mr. HUTTO. All right. Sergeant Major Gates.

Sergeant Major GATES. Sir, I am very honored to be given this unique opportunity to address you on behalf of our great soldiers of the United States Army.

I understand that you are concerned about the morale of our soldiers. I can tell you today that we do have a quality Army. Through you and your staff's continued support and concern, we are improving the quality of life of our soldiers and their families.

Your soldiers of today have a winning spirit that is contagious. During the past 6 months I have had the opportunity to talk at the 'canteen cup' level with leaders, soldiers, and family members in Germany, the Pacific, Central America, and at numerous camps, posts, and stations within CONUS to include the active force, the National Guard, our U.S. Army Reserves, and our retired alumni.

Your soldiers are concerned. We are concerned because we know that we have come a long way from the Army of the seventies and the early eighties. We strongly believe that our Army and our country cannot afford to allow a trend to develop that will cause us to lose that spirit of winning. Your Army is only as good as the soldiers who fill the ranks.

The major concerns for the enlisted soldiers are medical care, pay and allowances, housing, and being able to predict their future if they determine to make the Army as a career.

I have covered these areas in my statement for the record. But we are also concerned about our ability to recruit and retain quality soldiers. The majority of our recruiting force are noncommissioned officers who are detailed from our units. We select these outstanding noncommissioned officers. We train them, and we expect them to recruit high-quality men and women into our Army. They are required to accomplish an objective in competition with the lowest national unemployment in more than 14 years and the highest youth wage in recent history.

However, in some cases we do not supply these outstanding soldiers with the necessary tools to be successful in an ever-changing recruiting environment.

To assist these outstanding recruiter noncommissioned officers and to maintain our recruiting momentum, we must have the additional enlistment incentives, such as the authority to test the college fund incentive for combat service support enlistments.

Over the years we have been very successful in retention. We have retained many of our high-quality soldiers because of our leadership and our challenge in training.

In addition, we have been able to target selected reenlistment bonuses to soldiers who have been trained in critical military occupational specialties.

Noncommissioned officer leaders inform me that recent reductions in resources for training combined with reduced resources for selective reenlistment incentives have and will continue to have a detrimental effect on our ability to retain quality soldiers.

In the area of morale, welfare and recreation, we have a real problem with transportation costs and currency fluctuations that is caused by the cap of appropriated funds. This will cause us to be short of funds to meet our obligations.

If this imposed cap is allowed to continue, the added costs will be passed on to our soldiers. Again, the losers will be our soldiers.

If we are to avoid a decline in the quality of our soldiers and the quality of our Army, I strongly believe that we must have enlistment and reenlistment incentives to compete for the changing employment environment. Provide soldiers, single and married, with affordable adequate housing wherever they are stationed. Provide our soldiers and their families with top quality medical care. Provide adequate pay and allowances that will allow our soldiers, all of our soldiers, to have a standard of living that is above the national poverty level. We must maintain affordable morale, welfare and recreation activities.

Last, we must provide a predictable future based on promotions, a benefits package and a retirement system that is fair and consistent.

There are many other soldier issues that deserve your attention. However, I have covered the major concerns. We know that you must make some hard decisions that are facing our country. I also know that you will do what is right for our soldiers. Rest assured, our soldiers will do what is right for our country where they are needed.

Sir, this concludes my opening statements. I will be glad to answer any questions you may have.

PREPARED STATEMENT OF SERGEANT MAJOR JULIUS W. GATES

STATEMENT BY SERGEANT MAJOR OF THE ARMY JULIUS W. GATES

MR. CHAIRMAN AND COMMITTEE MEMBERS:

I AM HONORED TO BE GIVEN THIS UNIQUE OPPORTUNITY TO ADDRESS YOU ON BEHALF OF OUR GREAT SOLDIERS OF THE TOTAL UNITED STATES ARMY.

QUALITY ARMY

TODAY, WE HAVE A QUALITY ARMY. WE HAVE QUALITY TRAINING, QUALITY EQUIPMENT, QUALITY LEADERSHIP, AND WE HAVE THE BEST MEN AND WOMEN FROM OUR SOCIETY SERVING IN OUR RANKS. WE APPRECIATE YOUR SUPPORT FOR THE MUCH NEEDED PCS WEIGHT ALLOWANCE INCREASE, THE 4.1 PERCENT BASIC PAY INCREASE AND THE BASIC ALLOWANCE FOR QUARTERS INCREASE. THROUGH YOUR CONTINUED SUPPORT AND CONCERN WE ARE IMPROVING THE QUALITY OF LIFE FOR OUR SOLDIERS AND THEIR FAMILIES. YOUR SOLDIERS HAVE A WINNING SPIRIT IN OUR ARMY OF TODAY THAT IS CONTAGIOUS.

OUR CHALLENGE IS TO RECRUIT, TRAIN, EQUIP AND RETAIN A QUALITY ARMY. HOWEVER, THERE APPEAR TO BE SOME CLOUDS FORMING ON THE HORIZON THAT HAVE, AND WILL, AFFECT OUR ABILITY TO MEET THE CHALLENGE.

SOLDIER CONCERNS

DURING THE PAST SIX MONTHS I HAVE HAD THE OPPORTUNITY TO TALK AT "CANTEEN CUP" LEVEL WITH LEADERS, SOLDIERS AND FAMILY MEMBERS IN GERMANY, THE PACIFIC, CENTRAL AMERICA AND AT NUMEROUS CAMPS, POSTS, AND STATIONS THROUGHOUT CONUS, TO INCLUDE THE ACTIVE FORCE, THE NATIONAL GUARD, U.S. ARMY RESERVE AND OUR RETIRED ALUMNI. YOUR SOLDIERS ARE CONCERNED.

THE MAJOR ISSUES OF CONCERN FOR THE ENLISTED SOLDIERS ARE:

- MEDICAL CARE
- PAY AND ALLOWANCES
- HOUSING
- A PREDICTABLE FUTURE

MEDICAL CARE

THE AVAILABILITY OF MEDICAL CARE FOR FAMILY MEMBERS AND RETIREES CONTINUES TO BE THE MAJOR QUALITY OF LIFE ISSUE. MANY SOLDIERS ARE REQUIRED TO PAY OUT OF POCKET EXPENSES FOR MEDICAL CARE UNDER THE CHAMPUS PROGRAM. AND WHILE OUR MEDICAL PERSONNEL PROVIDE EXCELLENT CARE WE CONTINUE TO HAVE PROBLEMS WITH STAFFING OUR EXISTING FACILITIES AND PROVIDING ADEQUATE FACILITIES TO MEET THE PATIENT DEMAND.

MEDICAL CARE FOR FAMILIES IS A KEY FACTOR IN RETAINING SOLDIERS IN OUR ARMY. THEY WANT TO BE ASSURED THAT THEIR FAMILY MEMBERS WILL HAVE MEDICAL CARE AVAILABLE REGARDLESS OF DUTY ASSIGNMENT AND THEY WANT TO KNOW WHAT WILL BE AVAILABLE FOR THEM AND THEIR FAMILY MEMBERS AT RETIREMENT. THE PROPOSED USER FEE FOR DEPENDENTS AT MILITARY FACILITIES IS CONSIDERED AS ANOTHER LOST BENEFIT AND ADDS TO SOLDIER FRUSTRATIONS IN THEIR ABILITY TO PROVIDE ADEQUATE MEDICAL CARE FOR THEIR FAMILIES.

THE DENTAL PLAN, THE PRIMARY MEDICAL CARE PROGRAM AND THE ONGOING ARMY ACTIONS TO IMPROVE CARE AT ARMY FACILITIES ARE ALL WELCOMED INITIATIVES. WE STRONGLY SOLICIT YOUR SUPPORT IN THIS AREA. SOLDIERS AND THEIR FAMILY MEMBERS DESERVE QUALITY MEDICAL CARE.

PAY AND ALLOWANCES

WHY IS A MILITARY PAY RAISE NEEDED? THIS YEAR ABOUT 4.5 MILLION DOLLARS OF FEDERAL FOOD STAMPS AND ABOUT 2 MILLION DOLLARS OF WOMEN, INFANT AND CHILDREN COUPONS WERE REDEEMED BY SOLDIERS AT CONUS ARMY COMMISSARIES. WE HAVE SOLDIERS WHOSE STANDARD OF LIVING IS BELOW THE NATIONAL POVERTY LEVEL.

OUR SOLDIERS KNOW THEIR PAY HAS NOT KEPT PACE WITH EITHER THEIR CIVILIAN COUNTERPARTS OR INFLATION. THE COMPARABILITY GAP STANDS AT 10.1 PERCENT. OUR SOLDIERS WANT AND DESIRE A SYSTEM UPON WHICH THEY CAN DEPEND FOR FAIR AND COMPETITIVE RAISES WHICH WILL ALLOW THEM AN ADEQUATE STANDARD OF LIVING.

THE 3.6 PAY RAISE CONTAINED IN THE PRESIDENT'S BUDGET IS A NECESSITY. ANYTHING LESS WILL FURTHER DAMAGE OUR SOLDIERS PURCHASING POWER AND THEIR STANDARD OF LIVING. IN ADDITION, IT WILL SEND A CLEAR SIGNAL THAT THEIR SERVICE TO THEIR COUNTRY IS NOT VALUED.

HOUSING

THE LACK OF ADEQUATE ON POST HOUSING OR AFFORDABLE ECONOMY HOUSING, AND THE ALLOWANCE SYSTEM ARE MAJOR CONTRIBUTING FACTORS THAT CAUSE SOME OF OUR QUALITY SOLDIERS TO LIVE BELOW THE NATIONAL POVERTY LEVEL.

NEW CONSTRUCTION AND THE BUILD TO LEASE PROGRAM HAVE GREATLY ASSISTED OUR HOUSING PROBLEM. HOWEVER, WE STILL HAVE A VALID NEED FOR ADDITIONAL HOUSING. THE AVERAGE FAMILY HOUSING UNIT IS ALMOST 34 YEARS OLD AND IN NEED OF MAINTENANCE AND REPAIR. OUR RESOURCES FALL SHORT OF THIS NEED. THE RESULT IS INADEQUATE AND DETERIORATING FAMILY HOUSING UNITS WHICH IMPACT ON MORALE AND RETENTION.

SOLDIERS DESERVE A TOTAL HOUSING ALLOWANCE WHICH ALLOWS THEM TO OBTAIN SUITABLE ACCOMMODATIONS REGARDLESS OF DUTY STATION. BECAUSE THE BASIC ALLOWANCE FOR QUARTERS IS NOT ADEQUATE TO COVER NORMAL HOUSING EXPENSES OR THE ACTUAL COST OF LIVING IN MOST AREAS OF THE UNITED STATES, A VARIABLE HOUSING ALLOWANCE SUPPLEMENTS THE BASIC ALLOWANCE FOR QUARTERS. HOWEVER, AN IMPOSED CEILING ON THE ANNUAL AMOUNT OF FUNDS AVAILABLE FOR VARIABLE HOUSING ALLOWANCE PREVENTS THE HOUSING ALLOWANCE SYSTEM FROM OPERATING AS IT WAS INTENDED. THEREFORE, SOLDIERS MUST

BEAR AN UNACCEPTABLY HIGH PERCENTAGE OF HOUSING COSTS. REMOVAL OF THE VARIABLE HOUSING ALLOWANCE CEILING IS ESSENTIAL IF WE ARE TO PROVIDE AN ADEQUATE HOUSING ALLOWANCE TO ALL OUR SOLDIERS.

SINCE 1981 WE HAVE CONSTRUCTED SOME OF THE MOST MODERN BARRACKS AVAILABLE FOR OUR BACHELOR SOLDIERS. HOWEVER, WE STILL HAVE THOUSANDS OF BACHELOR SOLDIERS WHO ARE REQUIRED TO LIVE IN WORLD WAR I, WORLD WAR II STYLE BARRACKS IN GERMANY AND QUONSET HUTS IN KOREA. MANY OF THESE BARRACKS ARE OVERCROWDED WITH INADEQUATE HEAT AND BATH FACILITIES.

SOLDIERS FORM A LASTING NEGATIVE IMPRESSION OF OUR ARMY BECAUSE THEY ARE FORCED TO LIVE UNDER THESE CONDITIONS. WE WILL NOT BE ABLE TO RETAIN THESE QUALITY YOUNG AMERICANS IN OUR ARMY IF WE CAN'T FIX THIS PROBLEM. I RESPECTFULLY ASK FOR YOUR HELP IN THIS AREA.

PREDICTABLE FUTURE

A LEADER SHOULD BE ABLE TO SIT DOWN WITH A SOLDIER AND ASSIST THE SOLDIER IN PLANNING HIS/HER FUTURE IN THE ARMY. IT IS A TOUGH TASK TO ACCOMPLISH BECAUSE OF THE UNCERTAINTIES. TWO OF THE BASIC INGREDIENTS OF CAREER PLANNING ARE PREDICTIONS FOR

PROMOTIONS AND RETIREMENT BENEFITS. SHORTAGES IN FUNDS FOR THE MILITARY PERSONNEL ACCOUNT FORCED US TO REDUCE THE NCO INVENTORY RESULTING IN ANTICIPATED SHORTAGES OF ABOUT 6,000 NCOs IN FY 90. WE DEMAND EXCELLENCE FROM OUR SOLDIERS, HOWEVER, WE ARE NOT ABLE TO REWARD THESE SOLDIERS WITH DESERVED AND EARNED PROMOTIONS. THE RETIREMENT SYSTEM HAS BEEN REPEATEDLY MODIFIED OVER THE PAST TEN YEARS - ALWAYS DOWNWARD. SOLDIERS WANT A SYSTEM UPON WHICH THEY CAN PLAN THEIR FUTURES. THEY NEED TO BE ABLE TO TELL THEIR FAMILIES THAT AFTER RETIREMENT THEY WILL HAVE A RETIREMENT CHECK THAT WILL MAINTAIN ITS FULL VALUE. THEY NEED TO KNOW THAT AFTER SPENDING MOST OF THEIR ADULT LIFE IN THE ARMY THAT THEIR STANDARD OF LIVING WILL NOT DECREASE EACH YEAR.

CONCLUDING STATEMENT

ALL OF THESE AND OTHER QUALITY OF LIFE ISSUES RAISED BY SOLDIERS SIGNIFICANTLY IMPACT ON RECRUITING AND RETAINING A QUALITY ARMY.

IN ADDITION, WE ARE FACED WITH A RECRUITING CHALLENGE. OUR RECRUITING FORCE IS COMPETING WITH THE LOWEST NATIONAL UNEMPLOYMENT IN MORE THAN 14 YEARS AND THE HIGHEST YOUTH WAGES IN RECENT HISTORY. MEANWHILE, ARMY INCENTIVE AND RECRUITING RESOURCES HAVE BEEN CUT SIGNIFICANTLY.

IF WE ARE TO AVOID A DECLINE IN THE QUALITY OF OUR FORCE WE MUST HAVE ADDITIONAL ENLISTMENT PROGRAMS AND AN ATTRACTIVE LIVING ENVIRONMENT. WE NEED TO LIFT THE RESTRICTION ON THE USE OF THE ARMY COLLEGE FUND INCENTIVE FOR NON-COMBAT ARMS SPECIALITIES. WE MUST BE ABLE TO TARGET SELECTIVE REENLISTMENT BONUSES AGAINST CRITICAL MILITARY OCCUPATIONAL SPECIALITIES. WE MUST BE ABLE TO PROVIDE WAGES COMPETITIVE WITH THE CIVILIAN SECTOR. WE MUST BE ABLE TO PROMOTE DESERVING SOLDIERS AND, BECAUSE OUR ARMY TODAY IS A MARRIED ARMY, WE MUST CONTINUE PROGRAMS TO SUPPORT OUR FAMILY MEMBERS.

THERE ARE MANY OTHER SOLDIER ISSUES THAT DESERVE YOUR ATTENTION. HOWEVER, I HAVE COVERED THE MAJOR CONCERNS. WHILE YOU MAKE THE HARD DECISIONS THAT ARE FACING OUR COUNTRY I KNOW THAT YOU WILL DO WHAT IS RIGHT FOR OUR SOLDIERS. REST ASSURED OUR SOLDIERS WILL DO WHAT IS RIGHT FOR OUR COUNTRY, WHEN NEEDED.

Mr. HUTTO. All right. Thank you, Sergeant Major Gates.

Master Chief Sikes, do you have a statement?

Master Chief SIKES. Yes, sir, I do.

STATEMENT OF MASTER CHIEF MACHINIST'S MATE LEWIS M. SIKES, JR., FLEET MASTER CHIEF, U.S. ATLANTIC FLEET, U.S. NAVY

Master Chief SIKES. Mr. Chairman, members of the subcommittee, the Master Chief Petty Officer of the Navy is out in the fleet talking to sailors and he asked me to appear before the subcommittee. I would just briefly like to say a few remarks.

People are the Navy's most valuable asset. Our ability to retain this asset is determined primarily by the quality of life we can provide. Quality of life for today's sailors is a complicated issue. You cannot objectively define it. However, it is easily explained as how we take care of our people.

For our married sailors it revolves around the family. Housing, child care, medical needs, and more important, more quality time with his or her family. Family separation brought on by deployment continues to be a major reason good people leave the Navy. Maritime power deployments are a necessity and accepted as such by the men and women who serve. However, with the shrinking manpower pool and no draw-down of worldwide commitments, increased sea tours are likely, which in turn would increase the amount of family separation.

Similarly, a reduction in the number of ships will likely increase deployments and negatively impact the quality of life and retention.

Our single sailors face the same emotional stresses brought on by extended sea tours and deployments. In addition, they have unique problems. They have no family or home to return to after a deployment. Their home continues to be their ship. Their quality of life is determined by the command's morale, welfare and recreation programs. Successful programs offer varied recreational programs which directly impact their morale, conduct ashore, and retention.

Long-awaited shore duty brings even more hardships for our single sailor. Enlisted quarters are in short supply, and existing quarters are not adequate. Ashore they will live with two or three other sailors, having little or no privacy, and in some cases, share toilet facilities with as many as seventy other sailors. Lodging facilities are at a premium. Too few washers and dryers for the residents is the norm not the exception. These young sailors are the future leadership of the Navy and deserve quality living conditions.

We have a Navy our Nation can be proud of. Our sailors are active in their community. They tutor young people in our schools, actively participate in community programs, and seek out special projects for charity. They have earned the respect as productive citizens and they vote.

Today's sailors realize that the national debt is a problem, and they are willing to do their share. But we already lag 10.1 percent in pay comparability with the civilian sector and our training and quality of life programs fight bloody battles against an already too small operational budget.

We are not asking for more than what is right to maintain the quality Navy that Congress has helped our Nation build. Maintaining a proper balance between time at sea and time at home, providing a support network to ease the stress of family separation, upgrading bachelor quarters to quality standards, being properly compensated for services rendered, and having good morale, welfare and recreation programs for quality of life issues are necessary to maintain that quality Navy.

Readiness is people. We are proud ambassadors in foreign ports. We are strong citizens. We proudly support the policies of our Commander-in-Chief. Above all, we are proud to be Americans serving in the greatest Navy in the world.

We hope for and look forward to your support.

I am prepared to answer your questions.

PREPARED STATEMENT OF MASTER CHIEF LEWIS M. SIKES, JR.

	OUTLINE	PAGE
I.	Introduction/Overview	1-3
II.	Compensation	3-7
	A. Basic Pay	3-4
	B. Basic Allowance for Quarters/Variable Housing Allowance	4-5
	C. Cost of Living Allowance	5-6
	D. Bonuses	6-7
III.	Housing	7-8
IV.	Bachelor Enlisted Quarters	8-9
V.	Permanent Change of Station	9-10
VI.	Medical Care	10-11
VII.	Recruiting	11-12
VIII.	Family Support	12-13
	A. Child Care	12-13
IX.	Morale, Welfare and Recreation	13-14
X.	Summary	14-15

INTRODUCTION/OVERVIEW

Mr. Chairman and distinguished members of the Subcommittee, I am privileged to appear before you in my capacity for the Master Chief Petty Officer of the Navy to present my testimony on Quality of Life issues affecting Navy personnel.

My statement presents the enlisted views on those considerations which constitute "Quality of Life." I would like to begin with an overview of those observations.

The quality of naval enlisted personnel has never been better. Morale is good and the enlisted sailors serving in today's Navy feel a sense of need as well as a sense of accomplishment. However, in my travels and candid and private talks with sailors, I get a strong feeling that we have a lot of "fence walkers" when it comes to an individuals' decision to reenlist. Most sailors are very proud to serve their country and to wear the uniform of the United States Navy. They willingly sacrifice a piece of their own freedom and honorably serve to preserve democracy; but at the same time they have a very strong urge to live equal to their civilian counterparts.

The modern sailor is a volunteer professional and very much a part of the community in which he or she lives. Gone are the days of "drunk as a sailor," or "spend money like a sailor." Todays sailor shows a positive involvement in the community and sets the pace for society. The Navy tackles the tough issues, solves them and assists in setting the course for the nation.

"Zero tolerance" on drugs, responsible use of alcohol, child care and equal opportunity are a few issues that the Navy has leapt forward with and shared with local communities and the nation.

The modern sailor is politically aware and wise. They pay taxes, vote and follow current political events and political stands. They know and respond to the votes of support and also lack of support from their congressional representatives as never before, which brings us to why I am here today.

Earlier, I said we have many "fence walkers." Many of the sailors serving our country feel that the military is losing favor with our legislatures. The signal they get is that benefits will erode below tolerable levels; pay raises ironically, are resulting in reduced take-home-pay to some -- the troops know we are 10 percent below the civilian sector in pay and barely maintaining our own; and after-service benefits are perceived to be eroding. In addition, medical care is not adequate with talk that they will have to pay for their health care. There is also the constant attack on the retirement plan -- all when unemployment is at five percent in the civilian community where there are equally paying jobs, better medical and dental plans and where many corporations make available decent child care.

I strongly believe that retention is as good as it is today only because of positive leadership within the senior ranks of the Navy. Job satisfaction too, is a contributing factor to retention -- tools, equipment and parts are pretty much available for the sailors to be able to complete their tasks with a sense of pride and professionalism. We've been able to maintain adequate manning at sea; but at the cost of undermanning on shore, which is creating long work hours and taking away the palatability we need for a volunteer force.

I do want to thank the Congress for the good signals we've recently had -- we're okay in permanent change of station (PCS) monies for this fiscal year, we received a much needed increase in PCS weight allowance and we appreciate your support for a 4.1 percent pay increase. However, we need your continued support in areas of critical concern to the sailors in the fleet today in those areas which constitute their quality of life.

II. Compensation.

A. Basic Pay. We are not looking for superiority over our civilian counterparts; we are seeking comparability. Though, even at equitable pay standards, sailors endure a multitude of hardships not encountered in the civilian sector. Our sailors suffer long family separations, average longer work-days both at sea and on shore, and spend more time in harms way than their civilian counterparts. A growing percentage are having to maintain separate households because they can't afford to have their families living with them in the high-cost-of-living areas where they are homeported. The FY-90 proposed pay raise of 3.6 across the board is the bare minimum we should consider to be acceptable. Another pay cap will only increase the disparity between military and private sector wage levels and provide incentive for the Navy's best and brightest to seek employment elsewhere.

B. Basic Allowance for Quarters (BAQ) and Variable Housing Allowance (VHA). The housing allowance system, as amended in FY-85, has three components. They are Basic Allowance for Quarters (BAQ), Variable Housing Allowance (VHA) and an out-of-pocket contribution equal to 15 percent of national median housing cost which equates to 23 percent of BAQ. BAQ is supposed to be maintained at 65 percent of the national median housing cost of servicemembers by paygrade. These percentages were established in the FY-85 VHA revision. Fifteen percent out-of-pocket expense is reasonable. However, we are now approaching 22 percent by current figures, and we believe in many areas it is much higher. San Diego, Long Beach and Port Hueneme, California; Earle, New Jersey; Groton, Connecticut and New York City and other places where I hear sailors begging for some monetary relief. Many junior enlisted personnel have stated that their entire paycheck goes for housing. Their spouse has to work just to buy essentials; also more often than not this brings with it the added expense of child care costs and what's left over may pay the food bill, but what about the electricity, telephone, car payments and car insurance? So many of our sailors are forced to live in slums, high crime areas or commute 40 to 80 miles a day in order to get adequate, affordable housing -- with the added.burden of reliable transportation or transportation costs. Many live on a shoe string and any minor unexpected expense puts them in extreme financial difficulty. Bankruptcies and letters of indebtedness have increased and many supervisors complain about lost work time because their sailors spend time in financial counseling. Many of our junior enlisteds can't afford to save for a rainy day let alone put something aside for their children's education. Poverty breeds poverty. To maintain the quality of life factor that decent housing represents to our sailors, particularly our junior personnel, we need to repeal the VHA offset, drop the VHA cap and increase BAQ rates. The goal must be to return servicemembers' out-of-pocket costs to the average 15 percent of national median housing cost by paygrade intended by the current VHA program.

C. Cost of Living Allowance (COLA). Good international relations is a very important part of our Navy mission when sailors and their families are stationed overseas. It is not reasonable to expect them to limit all their activities overseas to the confines of a military base. In Japan, for example, a simple stop at a fast-foods restaurant for a good ol' "American" hamburger -- a taste of home -- can cost up to

$10.00 a person; a short mass transit ride from Yokosuka to Tokyo is a $37.50 outing for a family of four, just for transportation. A trip to a near-by park in Atsugi costs $13 in tolls. Daily transportation from Navy housing to the base at Yokosuka is $10 round trip. Yet surveys will indicate Cost of Living Allowance (COLA) should be cut. It's a "catch twenty-two:" the lag in COLA drove our Navy families to limit their activities to on-base entertainment, those costs, or rather lack of costs, are reflected on COLA surveys which, in turn, drive COLA further down.

D. Bonuses. The Selective Reenlistment Bonus (SRB) program is the "bread and butter" of the Navy's retention efforts. The payment of SRB to our most critically manned specialities is both prudent personnel management and cost effective. For instance, we invest approximately $62,000 in training a nuclear plant operator. To retain that trained individual we pay a maximum $30,000 SRB. This comparison illustrates the savings in retaining an experienced operator versus the cost of having to start from scratch training a replacement. It must be pointed out that the savings illustrated above does not take into account the $2,800 we spend recruiting the person to be trained or the lack of productivity while in their qualification process. Enlisted bonuses have proven extremely effective in the competitive recruiting environment when endeavoring to attract those top quality personnel we need to man the technically sophisticated Navy of today. We need continued Congressional support for these essential programs.

III. Housing. The availability of adequate and affordable housing is at a critical point. We have a 55,000 housing unit shortage world-wide -- 38,000 in the E-4 to E-9 community. The Navy is located primarily on the water front where two extremes are found: the affluent section and slums. The first one we can't afford financially; the other puts our Navy families in danger because our families find that inadequate housing in high crime areas is the only affordable alternative to family separation. If not in the slums, many of our families drive 70 to 80 miles a day over excessively congested highways to find affordable housing in secure areas like the San Francisco Bay area. In addition, many are opting to be geographical bachelors and that has a negative impact on morale. Case in point: a first class petty officer who has been stationed four years in San Diego, found a comfortable neighborhood and is maintaining affordable rent. His wife has a good paying job and child care has been well established. They cannot afford nor are willing to make the tremendous sacrifice of another move. The sailor received orders to San Francisco and is now a once-a-month visitor to his family and is just biding his time until his current enlistment is up. The Navy is losing a lot of valuable experience and costly training. It is unreasonable to ask our people to make these sacrifices. As housing costs soar and allowances remain static, the result is a decreased quality of life for our sailors and added costs to retrain sailors to keep the fleet at a viable state of readiness. The most severe impact of the nonavailability of Military Family Housing (MFH) is felt by our junior enlisted personnel. We need the continued support of the Congress and particularly this subcommittee in solving this problem. We need your assistance in aggressively pursuing funding of MFH Military Construction projects and the continued support for initiatives such as Section 801 Housing and Third Party Financing in order to provide more adequate and affordable housing for our people.

IV. Bachelor Enlisted Quarters. Single housing is just as critical as familiy housing. Living aboard ship can best be described as cramped, total lack of privacy, claustrophobic, continual compromises, noise, varied work schedules, no day or night -- just 24 hours countinuous. Music and television must be shared. There is no walking to the refrigerator to satisfy a late afternoon or midnight hunger, nor can you go anywhere for a moment of peace. Many of you have visited our ships at sea, how many of you have spent a night in enlisted berthing though? Try it. We accept the lack of privacy and lack of normal comfort that is inherent with ship board living. In fact, major habitability improvements have been achieved with our modern ships. However, when long awaited shore duty becomes available for our single sailor, they expect living standards to improve. Often this does not happen. Substandard World War II barracks, inadequate communal heads, poorly designed and maintained heating and air conditioning (if any) is what they find. Many of our personnel would opt to live off base but find that apartments are not available or even affordable. Life back home begins to look much more comfortable, and so does the job market, the pay and the freedom. The obvious happens; retention suffers. Improved billeting ashore for our single sailors is a must in the scheme of quality of life.

V. Permanent Change of Station (PCS). Increased weight allowances, improved permanent change of station (PCS) funding, per diem and dislocation allowances, extended pay-back on advanced pay have all been favorable steps toward making PCS moves more tolerable within the continental United States. However, overseas moves remain extremely difficult. When a sailor transfers overseas, he or she has to establish a residence on the local ecomony in many of the areas the Navy serves. In Europe and Japan especially, these moves require up-front money the first month anywhere from $3,000 to $5,000. This doesn't even include many of the familiar items we as Americans are accustom to having such as heating, air conditioning, lights, closets and fixtures. In Japan, American automobiles are prohibited and if a sailor has just purchased an automobile prior to receiveing orders, they are faced with a choice of either selling at a loss, or putting it in storage state-side for two to four years at their own expense while still making car payments. And once in Japan, it becomes a necessity to purchase another car there, plus be confronted with the mandatory two year off base insurance. At this point, it's hard to visualize the rewarding experience being stationed overseas offers. We must find ways to alleviate the emotional turmoil this financial strain puts on our enlisted sailors.

VI. Medical Care. The availability of medical care for spouses and children continues to be one of the major quality of life issues in the Navy today. Many personnel are being required to pay out of pocket expenses for medical care under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) program to compensate for the lack of medical care for dependents and retirees at many Navy medical facilities. This is an uncompensated expense that most personnel cannot afford and adversely impacts on the overall compensation package. That members may have to pay user fees for dependents at military treatment facilities is viewed by service members as an erosion of a benefit which is essential to the peace of mind to those who go to sea for extended periods of time. Establishing Navy Primary Medical Care Clinics (NAVCARE) has alleviated some problems and CHAMPUS Prime has been a big relief in California. The actions of Congress to improve the availability of direct health care tothis point are appreciated, however, much more needs to be done. The military medical system must be able to provide quality care for all beneficiaries. Until affordable alternative medical care is in place, this issue will continue to negatively impact on quality of life.

VII. Recruiting. In my interviews with many of our enlisted recruiters, they feel an already difficult job is made even more difficult by a lack of financial support in recruiting. Most high school students do not understand the mission of the Navy, nor do they realize the technical aspect available to sailors. Being a sailor is viewed as a very lonesome, unskilled drudgery; not as an exciting, rewarding profession -- and money is not funded in sufficient amounts to educate the public on Navy-specific adventure. We have been getting good quality people, but we must continue this trend if we are to meet the needs of an increasingly complex Navy facing an increasingly complex threat around the world. The pool of recruitable high quality male high school graduates is shrinking and highly sought after by civilian employers and institutions of higher learning. We must redouble our recruiting efforts to ensure that we do not fail to attract the best and brightest to serve in the Navy. We need also to look at the hardships facing our recruiters. Navy recruiters are allowed to claim reimbursement for incidental expenses up to $60.00 per month. With proper justification and documentation local commanding officers are authorized to pay reimbursement exceeding that $60.00. However, with the reduced recruiting funding this year, district levels have less operating targets and it seems reimbursing the recruiter's out-of-pocket expenses is one area that has been tightened up. We must support our recruiters by providing them with the assets necessary to ease these additional burdens. Your support for both recruiting and recruiting advertising dollars is essential to meet our challenge of satisfying Navy requirements for quality recruits in competing with educational institutions and civilian industry, both of whom are looking for quality men and women.

VIII. Family Support. Navy Family Support Centers have proven their value in supporting our Navy family; singles and married, active duty and dependents. We must ensure and support proper funding and quality management of these centers.

A. Child Care. Child care and child development are a national problem that impacts even more severely on the military community. Great strides have been made, but much more must be done. When I meet with a group of sailors the primary concerns are child care and housing. The demands for child care have become more critical because of a number of reasons: both parents must work to make ends meet, the number of military married to military is on the increase and the number of single parents in the military is on the upswing. The burden of child care is much more severe for sailors because of sea duty, watch standing, shift work and long working hours because of undermanning ashore.

The availability of child care facilities is a critical quality of life issue. The Navy has approved home day care in housing areas at some commands which serve children who otherwise would be added to the long lists awaiting space in day care facilities. Program expansion has been hampered by the lack of personnel to properly monitor the homes. Imposed funding constraints have further slowed our progress in hiring qualified home day care monitors. Most child care centers have waiting lists of several hundred children and many operate too few hours to adequately meet military parents' work schedules. The shortfall is primarily driven by many old and substandard structures and the inability to attract and retain staff because of low salaries. Some of the families living on the local economy are in dire financial straits and in some cases are unable even to afford the cost of military-subsidized child care. To help us meet this critical need, we ask Congress to approve our FY 90 budget request for additional military construction funds for child development projects.

IX. Morale, Welfare and Recreation (MWR). Morale, Welfare and Recreation (MWR) programs are vital to the good mental and physical health of our sailors, especially our young, single sailors living aboard ship and in the barracks. Gymnasiums, swimming pools, hand ball courts and entertainment programs are regarded as an earned benefit. Any reduction of these services or added cost to an individual sends a very strong and negative, however false, signal to our sailors that the Congress has a total lack of appreciation for the sacrifices sailors make to serve their country. Our club system is very important and it is absolutely essential overseas. Due to recent extensive appropriated fund (APF) changes, cuts and caps, the Navy is actively adjusting its MWR operations and funding approaches. The Navy has made drastic improvements in some localities in bringing the club system up to providing a modern-day customer-responsive system which is self-supporting.

X. Summary. We must not repeat the drastic personnel actions we were forced to take in FY-88 because of significant shortfalls in funding: delaying enlisted advancements, increasing time-in-rate requirements for E-1/E-2 personnel, establishing a voluntary/involuntary early release program, extending all tours by two to four months, reducing Special Duty Assignment pay, and delaying start-up of Selective Reenlistment Bonus (SRB) program -- then releasing new award levels late,. Our men and women continue to perform at top levels and readiness and esprit de corps remain high. Our sailors realize their obligations to contribute their fair share to budget reduction, and as I said earlier, our sailors are smart, they are learned, and they are aware of political issues and congressional stands. But when their ability to provide an adequate and secure standard of living for their families is threatened, retention eventually suffers. The downward trend in retention is of concern and must be reversed because retention is directly attributed to how compensation issues are handled. I fully appreciate the difficulties this subcommittee has in balancing the budget while convincing your colleagues of the sacrifices our men and women make. But I also emphasize our need for your continued support for improved housing opportunities, education, child care, medical, MWR and pay compensation because these quality of life concerns are imperative if our personnel are to keep pace with the civilian economy and remain proud dedicated professional members of our Navy. Thank you.

Mr. HUTTO. All right. Thank you very much, Master Chief.

Now, Sgt. Maj. David W. Sommers, U. S. Marine Corps.

STATEMENT OF SGT. MAJ. DAVID W. SOMMERS, SERGEANT MAJOR OF THE U.S. MARINE CORPS

Sergeant Major SOMMERS. Thank you, Mr. Chairman.

I appreciate the opportunity to bring you the views and concerns of the enlisted marines in the field.

Today your Marines stand ready to do whatever needs to be done in the defense of this great Nation. Even after we took and end-strength cut last year that caused us to cut three infantry battalions, which was muscle from our readiness, your Corps cannot stand to receive those types of cuts again this year. To receive them, end strength cuts will cause us to cut complete units once again.

Doing more with less and doing it better than our adversaries is the name of the game. But readiness greatly depends on our strength.

Today as we talk about issues such as medical, child care and other issues, keep in mind that we did not come here with surveys or studies. We came here with the grass roots information from the field. Thank you, sir.

Mr. HUTTO. So that completes your statement?

Sergeant Major SOMMERS. Yes, sir.

Prepared Statement of Sgt. Maj. David W. Sommers

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM SERGEANT MAJOR DAVID SOMMERS, SERGEANT MAJOR OF THE MARINE CORPS. I APPRECIATE THE OPPORTUNITY TO SPEAK TO YOU THIS MORNING ON MY VIEWS ABOUT THE QUALITY OF LIFE OF OUR MARINES. I DO NOT WANT TO BELABOR THE OBVIOUS, SO I WON'T TAKE UP YOUR TIME IN GOING OVER THE DIFFERENCE IN THE QUALITY OF TODAY'S MARINE FROM THE PAST. THE DIFFERENCE IS BOTH WELL-KNOWN AND WELL-EVIDENT. MILITARILY, THE DIFFERENCE IS ESSENTIAL. THE VERY NATURE OF THE NEXT CONFLICT WILL LIKELY REQUIRE THE COURAGE OF PAST WARS BUT MANY TIMES MORE SPONTANEOUS JUDGEMENT AND INITIATIVE. THE INFORMATION REVOLUTION HAS IMPACTED MILITARY LIFE DIRECTLY AND HAS TRANSLATED INTO GREATER REQUIREMENTS FOR INTELLIGENCE, INITIATIVE, AND TACTICAL CREATIVITY AT MUCH LOWER LEVELS ON THE BATTLEFIELD. AS A RESULT, WE RECRUIT FOR INTELLIGENCE AND RELIABILITY, AND WE HAVE DONE SO SUCCESSFULLY.

IN ADDITION TO IMPROVED QUALITY, WE TRAIN OUR MARINES BETTER TODAY, SO WE GET MORE MARINE FOR THE MONEY. OUR TRAINING IS MORE REALISTIC, AND OUR OVERALL READINESS IS HIGHER THAN AT ANY OTHER TIME IN MY CAREER. POUND FOR POUND, DOLLAR FOR DOLLAR, WE HAVE MORE COMBAT-READY FIREPOWER THAN EVER BEFORE. REAL SKILLS FOR REAL SITUATIONS ARE BEING PRACTICED AND PERFORMED. AS A CASE IN POINT, THE FIRST CONTINGENCY MARINE AIR-GROUND TASK FORCE TO DEPLOY TO THE PERSIAN GULF SAILED WITH LESS THAN TWO DAYS PREPARATION. YET, IT WAS MANNED WHOLLY WITH MARINES WHO HAD BEEN CONDUCTING NOTHING MORE THAN ROUTINE TRAINING. ONCE THERE, THEY

REACTED TO AN ARRAY OF THREATS AND MISSIONS UNDER CHAOTIC, UNCERTAIN CIRCUMSTANCES, WITH PROFESSIONALISM AND DISCIPLINE.

TODAY'S MARINE CORPS IS THE ONLY FORCE THIS COUNTRY HAS THAT CAN ACHIEVE ITS ASSIGNED GLOBAL WAR FIGHTING REQUIREMENTS SHORT OF GENERAL WAR WITHOUT MOBILIZING A MAN. EVEN IF WE WERE TO MOBILIZE, OUR RESERVE FORCES ARE COMBAT READY. DURING OUR MOST RECENT EXERCISES IN NORWAY, RESERVE UNITS EXCELLED IN DEPLOYMENT PREPARATION AS WELL AS ACTUAL TRAINING.

NONE OF THIS IS INTENDED TO DISPARAGE OUR FORMER MARINES; MARINES HAVE ALWAYS RISEN TO THE TASK AT HAND. WHILE NO ONE COULD HAVE KNOWN OF THE BEACHES OF TARAWA OR IWO JIMA, AT INCHON OR EVEN IN THE JUNGLES OF VIETNAM, WHAT WE WOULD BE FACING TODAY, WE MADE AN UNCONDITIONAL SOCIAL OBLIGATION TO THEM FOR THEIR SACRIFICE.

I BELIEVE THAT CUTS TO OUR RETIREE'S BENEFITS HAVE BEEN MENTIONED ALL TOO FREQUENTLY AS COST-SAVING MEASURES. I BELIEVE IN THE STRONGEST TERMS THAT OUR COMMITMENT TO THEM IS INVIOLABLE AND THAT ANY COMPROMISE IS UNCONSCIONABLE. THERE IS NO DOUBT THAT OUR TREATMENT OF RETIREES HAS AN IMPACT ON YOUNG MEN AND WOMEN ENTERING THE SERVICE TODAY. IN CONTRAST TO THE PAST, TODAY'S MARINES HAVE MUCH DIFFERENT EXPECTATIONS OF THE SERVICE. JUST AS THE INFORMATION REVOLUTION HAS TOUCHED THE ARMED SERVICES DIRECTLY IN CHANGES TO OUR MEANS OF WAR, IT HAS IMPACTED INDIRECTLY AS WELL IN THE INCREASED SOPHISTICATION OF OUR YOUTH

PRIOR TO ENTERING THE SERVICE. WITH GREATER EDUCATION AND INTELLIGENCE COMES GREATER AWARENESS OF THE WORLD. CAREER DECISIONS ARE MADE MUCH EARLIER - IN MANY CASES, THE DECISION TO JOIN THE SERVICE ITSELF IS A CAREER DECISION. A GOOD JOB AND A FAMILY, WHICH USED TO BE LONG-TERM GOALS, ARE IMPORTANT TO MANY HIGH SCHOOL GRADUATES DURING THEIR FIRST ENLISTMENT.

IN THE LAST THREE YEARS, FOR THE FIRST TIME, WE HAVE HAD MORE DEPENDENTS THAN MARINES. TODAY, OVER 42 PERCENT OF OUR MARINES ARE MARRIED. TWO OUT OF THREE FAMILIES HAVE CHILDREN UNDER THE AGE OF ELEVEN AND OVER HALF OF THE SPOUSES WORK OUTSIDE THE HOME. ONE OUT OF THREE SPOUSES IS UNDER THE AGE OF TWENTY-FOUR. FAMILY SUPPORT CANNOT BE OVERLOOKED, IF ONLY FOR THE SAKE OF COMBAT-READINESS.

QUALITY OF LIFE ISSUES DIRECTLY IMPACT ON OUR WARFIGHTING CAPABILITY. WE HAVE RECRUITED GOOD PEOPLE, WE HAVE PREPARED THEM FOR COMBAT, AND NOW, TO KEEP THEM EFFECTIVE AND IN UNIFORM, WE HAVE TO HELP THEM TAKE CARE OF THEIR FAMILIES. DESPITE THE WELCOME PAY RAISES UNDER PRESIDENT REAGAN, LAST YEAR, ALMOST $400,000 WAS RECEIVED IN FOOD STAMPS AT MARINE CORPS COMMISSARIES. WE CAN ONLY SPECULATE ON HOW MUCH MARINES SPENT OFF-BASE IN FOOD STAMPS OR EVEN MORE IMPORTANTLY, HOW MANY WERE ELIGIBLE FOR THE ASSISTANCE BUT TOO PROUD TO ASK. ONLY WHEN OUR PAY APPROACHES, AND STAYS IN LINE WITH THE CIVILIAN COMMUNITY, WILL WE BE ABLE TO ASSURE OUR MARINES THAT THEIR REWARD FOR SERVICE WILL NOT BE POVERTY.

WITH THE BACHELOR AND MARRIED HOUSING PROJECTS INITIATED IN THE PAST FEW YEARS AND THE PLANNED CONSTRUCTION FOR THIS YEAR, WE HAVE MADE SIGNIFICANT INROADS INTO ELIMINATING OUR HOUSING DEFICIT. FAMILY HOUSING REMAINS A SEVERE PROBLEM, ESPECIALLY IN OUR WEST COAST COMMANDS. IN SOUTHERN CALIFORNIA AND HAWAII WE STILL CAN'T HOUSE THEM ALL ON BASE. WE URGE YOU TO SUPPORT OUR FAMILY HOUSING AND SINGLE HOUSING INITIATIVES.

WHILE WE HAVE REDUCED THE NUMBER OF UNACCOMPANIED TOURS OVERSEAS, WE HAVE INCREASED THE AMOUNT OF TRAINING, CAUSING YOUNG MARINES TO FACE MORE NUMEROUS SHORT-TERM DEPLOYMENTS TO OKINAWA, SHIPBOARD DEPLOYMENTS, AND DEPLOYMENTS FOR TRAINING AWAY FROM THEIR HOME BASE. FOR THESE MARINES, LIFE IN THE FIELD AND ON FOREIGN SHORES IS INEVITABLY MORE STRESSFUL. THE COST OF MAINTAINING TWO HOUSEHOLDS, THE SEPARATION OF THE FAMILY, THE BURDEN OF CHILD CARE ARE ALL DETRACTORS FROM READINESS.

AS YOU KNOW, WE ARE REQUESTING TWO MORE CHILD DEVELOPMENT CENTERS IN FY 90. THIS YEAR WE ALSO EXPECT TO DOUBLE THE FAMILY DAY CARE PROGRAM. OUR FAMILY SERVICE CENTERS, IN CONJUNCTION WITH THE LARGER EFFORTS OF THE DEPARTMENT OF DEFENSE AND NAVY, PROVIDE EMPLOYMENT RESOURCE CENTERS AND OTHER ESSENTIAL SERVICES FOR OUR MARINE CORPS FAMILIES.

THE LAST AREA OF SOME CONCERN TO ME IS MEDICAL CARE. ACROSS THE COUNTRY, THE AVAILABILITY AND COST OF HEALTH CARE IS A CONCERN TO MANY. THE DEPARTMENT OF DEFENSE AND THE DEPARTMENT OF

THE NAVY HAVE STARTED A NUMBER OF INNOVATIVE PROGRAMS SUCH AS THE NAVCARE CENTERS AND THE CHAMPUS INNOVATIONS IN CALIFORNIA AND HAWAII. QUALITY HEALTH CARE CANNOT BE SOLVED BY ANY ONE SERVICE OR EVEN THE WHOLE DEPARTMENT OF DEFENSE. COMPETITION FOR MANPOWER AND RISING HEALTH CARE COSTS MAKE THE SUBJECT OF THE GREATEST CONCERN NOT ONLY FOR OUR DEPENDENTS AND RETIREES BUT FOR OUR ACTIVE DUTY COMBAT READINESS AS WELL. I HAVE SEEN THE IMPACT OF THESE PROGRAMS AMONG OUR FORCES. WE SUPPORT INCREASES IN THESE PROGRAMS. WE CANNOT REST UNTIL OUR OBLIGATIONS ARE MET FOR ALL OUR PEOPLE.

SIR, THIS CONCLUDES MY REMARKS. I APPRECIATE THE OPPORTUNITY TO ADDRESS YOU THIS MORNING, LOOK FORWARD TO ANSWERING ANY QUESTIONS YOU MIGHT HAVE.

Mr. Hutto. I regret that we are going to have to recess again. We are doing more voting today than we have done all year.

So we will recess, and we should be back in approximately 10 minutes. So if you will please stand by, the subcommittee will stand in recess.

[Whereupon, at 4:06 p.m., the subcommittee recessed, to reconvene at 4:30 p.m.]

Mr. Hutto. The subcommittee will resume its sitting, and we do have a few questions but we will not keep you long. We will give you questions that we will let you answer for the record.

Sergeant Major Sommers, you mention on page 3 of your statement that for the first time we have had more dependents than marines. Also 42 percent of the marines are married.

I have two questions. First from the quality of life perspective, what does it mean to have so many married marines and a large number of dependents?

Second, how do you balance the advocacy for families with those of the single soldier?

Sergeant Major Sommers. Well, first off, Mr. Chairman, what it means to have more dependents than it has marines is that it means that the commanders take on that responsibility for those families. See, prior to a deployment or prior to an exercise, it is the command's responsibility to ensure that those dependents are taken care of prior to the departure of the service member.

For instance, prior to a 6-month deployment, we spend a lot of time preparing those families to be left alone. So I guess, to be quite honest, it requires one heck of a lot of work when you have more dependents than you have marines. It also requires you to spend money in areas that you would not otherwise spend it in to care for those dependents, as they are our responsibility and we are required to spend money and time to make sure that they are well taken care of.

The second part of your question, sir, I'm not sure——

Mr. Hutto. How do you balance the advocacy for families with those of the single soldier?

Sergeant Major Sommers. Well, I do not think we are having any problem in that area. We take very good care of our marines and I think on the other side of that coin, for the dependents, the family service centers and the tools that we have in position to care for our families service both sides of that coin, sir.

Mr. Hutto. All right, sir.

Any of you can answer this. General Jones in his statement addressed overcrowded bachelor or troop housing. What is your perception of this problem, and what are the service men and women saying about it?

Chief Master Sergeant Binnicker. Sir, I think it is a big irritant for our single folks. In the Air Force we are 63 percent married.

Mr. Hutto. 63?

Chief Master Sergeant Binnicker. Yes, sir. The rest are single living in barracks and for the most part two people to a room. It is a big irritant. When you talk to a young man or woman, they want privacy. Not so concerned about the actual size of the room, but they want their privacy. I would like to be able to give them that.

I think that we could make a lot of money from a retention standpoint by allowing them to do that. We are moving in that direction to the extent that the budget will allow. Hopefully one day we can get there, for single rooms.

Mr. HUTTO. Master Chief, do you have the percentage in the Navy of the marrieds?

Master Chief SIKES. Yes, sir. Approximately 56 percent are married.

Mr. HUTTO. 56 percent. In the army?

Sergeant Major GATES. Yes, sir, Mr. Chairman. About 57 percent of our force is married.

May I elaborate a minute on the bachelor soldier barracks?

Mr. HUTTO. Yes.

Sergeant Major GATES. Or housing, if you will?

Mr. HUTTO. Yes, sir.

Sergeant Major GATES. Sir, I am very concerned for our bachelor soldiers. We have about 40,000 soldiers who still live in World War I or World War II barracks in Germany. We have a number of soldiers who live in quonset huts that were left over from the Korean War time frame, without adequate facilities inside. In a lot of cases those soldiers have to go outside of their quonset hut and travel a couple or 300 meters to use the facilities even during the extreme temperatures. So we do have some problems with bachelor housing.

Mr. HUTTO. All right.

Sergeant Major SOMMERS. If I could make a comment on that.

Mr. HUTTO. Yes, sir.

Master Chief SIKES. Mr. Chairman, what we are seeing in today's Navy is—when I came in twenty-four, 25 years ago, the barracks were—that is where you were expected to stay. As the Navy progressed, our single sailors moved on the economy to the standpoint they moved two or three to a residence to maintain a residence in the local economy.

But today with the ever-increasing cost of housing, that becomes harder and harder, and we have got more sailors coming back to the bases and seeking the barracks that they are entitled to and deserve.

I would agree with Sergeant Major Gates, it is the disrepair that we find some of our facilities in that is not conducive to good morale or good quality of life for that single sailor.

Mr. HUTTO. All right.

Sergeant Major SOMMERS. Mr. Chairman, may I comment on that as well?

Mr. HUTTO. Yes, sir.

Sergeant Major SOMMERS. We have got another area here dealing with bachelor housing that we do not speak of very often and that is a term we refer to as a geographical bachelor. Those marines that we have that cannot afford to move their family because of the cost of living in that particular area. They are required to report into that duty station without their family. So what we have now is a split household and we have a staff noncommissioned officer who has been in the Marine Corps for a good number of years who is forced to live on the base because he cannot afford to move his family.

It is a growing concern as to where we are putting these marines. We are doubling them up. We are taking a lot of different measures to house them, but this is a growing problem and I believe it probably would be a growing problem, in all the services.

Mr. HUTTO. Are you familiar with the situation in Okinawa?

Sergeant Major SOMMERS. Yes, sir, I am.

Mr. HUTTO. Could you tell us a little about that?

Sergeant Major SOMMERS. As to the bachelor housing, sir?

Mr. HUTTO. Yes.

Sergeant Major SOMMERS. I was just recently in Okinawa and from what I viewed in Okinawa, we have made major strides in base housing in housing units, with the high-rise units to provide housing for our families. We try not to send a family over there or a marine over there on an accompanied tour unless there is available housing.

However, we have an awful lot of marines who are on unaccompanied 1-year tours who take their dependents to Okinawa, non-command sponsored dependents. I am told that this is not putting a strain on the system because we have the medical facilities and we have the commissary and the PX available to provide for them. However, they are having a very difficult time in that to live on the economy is extremely expensive in Okinawa.

For the bachelor marines that are there, those that are on 1-year unaccompanied tours, the quarters that I saw in Okinawa were very adequate.

I might add, it may be an adequate set of quarters for an infantry battalion. It may not be adequate for another unit, in that the mission is different, the locations are different, and sometimes our infantry units are in different style barracks, and I am referring to the older style barracks, open-squad bay type. We still have a few of those in Okinawa.

Mr. HUTTO. OK. I am going to exercise the prerogative of the chair and ask an additional question here.

All of you heard the testimony of General Jones and Mrs. Pope. From each of your statements, it is clear that you have visited bases and commands throughout the world and are familiar with the quality of life and conditions at bases in Panama, the Philippines, Greece and Korea.

Would you describe the conditions there as far as quality of life is concerned? The types of problems and concerns and areas needing attention of our support? In other words, do you have anything to add to what they said? If you do——

Chief Master Sergeant BINNICKER. I would only add, sir, that because of those situations, it only focuses on the need for more of the kind of activities that MWR would provide, more of the base support. Because people are now reluctant to go onto the economy, so now they are focusing on the base ever more and that is putting a strain on the existing facilities.

So we are really having to focus on the improvement of those, everything from the size of the commissary, the BX, and all of the MWR activities. Extremely important. Because without that facility, support facility, they are virtually prisoners.

Mr. HUTTO. Any other comments on that?

Sergeant Major GATES. I would like to continue to add to Chief Master Sergeant of the Air Force statement.

Because of some of the restrictions that are placed on our soldiers and their family members in these areas, it is very, very important that we continue to support those areas with as much MWR programs as we possibly can.

Sir, rest assured, and I probably should not say this, I may get relieved for saying so, but given a word, your Army and your military forces could go into Panama and make sure the United States does exactly what they are supposed to do down there without any problems at all in probably forty-eight to 64 hours. They are that ready.

Mr. HUTTO. OK. Any other comments?

OK. Mr. Lancaster.

Mr. LANCASTER. Sergeant Major Sommers, you and I share a concern about the health care situation that exists, particularly in the Navy and particularly for me, since I represent Camp Lejeune, as it affects the Marines and retirees in the Jacksonville area.

In your statement you state that quality health care cannot be solved by any one service and even the whole Department of Defense.

If in fact you feel that it cannot be solved by the Department of Defense, what is the solution? If the DOD cannot solve it, are you inviting then the micro-management of Congress that DOD always complains about? Or is it a question of simply providing more resources, and if so, where would those resources go?

Sergeant Major SOMMERS. Sir, the Camp Lejeune area is——

Mr. LANCASTER. You need not confine your remarks just to that one base. I was just prefacing my remarks saying that is the reason that I am concerned about it. But I really am looking at the more global picture.

Sergeant Major SOMMERS. But I believe, sir, when you look at medical care, you have to look at the geographical location. That I believe is the key to it. I will use the difference of the two geographical areas, Camp Pendleton, which is on the west coast and Camp Lejeune on the east coast.

At Camp Pendleton, some of these initiatives such as PRIMUS and CHAMPUS that the NavCare have are much easier for our people to get to. When you take a Camp Lejeune area, some of these initiatives do not work out that well. Because the Camp Lejeune area, as you well know, sir, has a very, very large population of retired that come down from Ft. Bragg as well as Jacksonville.

We do not have that many doctors in that area. So to find the doctors that are willing to participate in these programs is difficult. Much more difficult than Camp Pendleton.

When I said that, that I do not believe it can be solved by the Department of Defense, I believe it will take the resources of funds to keep these young doctors in. The thing that a doctor, in my opinion, gets from the military is experience. He gets experience and he is not faced with malpractice insurance and all the other things. He is able to come in and practice and get his credentials and establish himself as a physician prior to leaving. The trick is, in my opinion, is to be able to keep those young doctors in.

I believe at Camp Lejeune, again using that area, that they have made tremendous strides at the hospital at Camp Lejeune. It fell under a new command and the captain that took place over really grabbed it by the horns. I believe they are turning that around.

But still, it is a terrible crime to me when we cannot provide the medical care that we promised those retirees years ago when they made that commitment. I believe the assets are going to be required in the area of funds to make it enticing enough for these doctors to stay in, sir.

Mr. **Lancaster**. Do you think the real problem and the reason that you say that DOD cannot solve the problem is just one of additional money which only Congress can appropriate?

Sergeant Major **Sommers**. It is not only money, sir. But it is personnel as well. The Navy Department just does not have the medical personnel. We have got a place right now in the School of Infantry out in California where we are struggling to try to get Navy corpsmen assigned to there. We do not have the personnel to do it. That has been I guess the bottom line, is personnel and the funds to bring those personnel in.

Mr. **Lancaster**. Master Chief Sikes, I apologize for being shuttled back and forth with these votes, and so I missed your statement. But there is something that I wanted to inquire of you about which you made reference to in your statement, and that is the question of appliances that are available on foreign bases, or issued to our sailors or marines.

It is my understanding that there are washers and dryers and other appliances that are available as well as beds, limited amounts of furniture, and that sort of thing. That one of the problems is the manner in which those appliances or furniture are issued. It may be that they are issued to people of high rank who might be able to better afford to obtain those items on their own in a higher priority than some of the young enlisted men who may have great difficulty.

I wonder if you could tell me if this is a problem of Navy regulation where those items do exist, and is it something that the Navy can straighten out at the SECNAV level, or is there a great deal of latitude at the command level so that a commanding officer may have the leeway to decide whether he is going to issue washers and dryers only to 03s and above or E-5s or above?

Master Chief **Sikes**. So far as the issuance—you are speaking in overseas location only?

Mr. **Lancaster**. Only in overseas locations.

Master Chief **Sikes**. OK. It is on an available basis. It is not prioritized by rank. As the individual becomes located in the residence he is going to occupy and it is available at the dispensing activity, they get it.

Mr. **Lancaster**. That is true of everything? Furniture, appliances——

Master Chief **Sikes**. Furniture, appliances——

Mr. **Lancaster**. That is Navy-wide, not by command?

Master Chief **Sikes**. Yes, sir.

Mr. **Lancaster**. Mr. Chairman, could I ask one more question?

Mr. **Hutto**. You already did. You had yours earlier. I am sorry. It is getting late in the day. Mr. Ray.

Mr. RAY. Gentlemen, good to have you here. I am pleased to be able to be here to talk to you about your concerns and problems and so forth.

We have been advised in subcommittees that our soldiers and sailors and airmen and marines are anxious to get more realistic and live firepower-type training. Of course, we are faced with probably a frozen Defense budget for the foreseeable future, and no doubt reduction in training funds could restrict real training and force more reliance on simulators.

In your view, and each of you can answer that—this will be the only question that I have—what would be the impact upon morale and readiness of the troops if we have to go into such reductions and rely more heavily on simulators?

Master Chief SIKES. Well, the obvious answer is that morale is going to drop, sir. As much as we sit here and talk about quality of life and quality time at home, you tell a sailor he cannot go to sea and he is going to leave the service. There is a certain amount of sea time that he has to spend.

From the standpoint of the training, the emphasis that we placed on base security and the increase in the cognizance of security, we came up with a very explicit program for base security training and getting auxiliary security forces, et cetera, trained up to protect our bases in case of terrorist attacks.

The situation is such that when you cannot get enough ammunition to maintain the qualifications for our people, it is of grave concern to them. They understand the reason for security and now they want the bullets to be able to maintain the qualifications to do it.

Sergeant Major GATES. Sir, if I may, one of the reasons that our young people enlist in the Army is for a training challenge. I believe that if we do not continue to provide those soldiers with realistic training challenges, that they certainly will leave the Army after their enlistment. One of the most appropriate ways of getting the word to young Americans to enlist in whatever branch of service they want to enlist in is by word-of-mouth.

So I think it would be detrimental to the recruiting effort if we lower the op tempo much more than what it is today.

But more importantly, it will cause a decline in our readiness posture. I know those are offensive words, but the squad members must be very proficient in how they can operate their weapon systems. The tank crew members must be very proficient on how well they can operate their tank crews.

If we lower that op tempo much more than what it is, then we will certainly have a degradation in the readiness posture of our soldiers.

Mr. RAY. Thank you.

Sergeant Major SOMMERS. I think it would have an adverse effect on morale and more importantly I think it would have an adverse effect on safety. I think it is in increased aircraft accidents because they just do not have that training.

Mr. RAY. Thank you.

Master Chief SIKES. Sir, I believe it would decrease our survivability. You can train in trainers and simulators all you want, but you need to feel the recoil and you need to smell the powder to get the real feel for what you are going to do.

I believe that the reason why we have been so successful in areas like the Persian Gulf and the takedown of that oil tower and things of that nature is because we train that way. That was not the first time those guys were on those towers. We train on those towers. To take those training dollars away, not to allow us to do the types of things that we need to do I believe is we are doing an injustice to those young people that we have to put out on the point.

Mr. Ray. Well, thank you so much.

Master Chief Sikes. Sir, if I can add just one personal note.

Mr. Ray. Yes.

Master Chief Sikes. My son is a 2nd Class Petty Officer on board the U.S.S. *Eisenhower*. His safety and his trainability is very important to me. In this particular job I get a good input. I get straight input on the home front on the quality of life for the young sailors on the deck plate.

Mr. Ray. All right, thank you.

Mr. Hutto. Thank you, Mr. Ray.

We want to thank all of you. Apologize for the delays. It was beyond our control, but we are grateful to you for coming before our subcommittee.

I know that we all will benefit from your testimony. Your views will be very valuable as we deliberate over the hard decisions on the Defense budget.

We want to thank you for what you do for the defense of our country, and again, we are grateful to you for coming.

Master Chief Sikes. Thank you, sir.

Mr. Hutto. We will also have some additional questions for each of you to answer for the record. With that, the Subcommittee on Readiness will adjourn until a later date.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned.]

[The following questions were submitted to be answered for the record:]

MILITARY FAMILY LIFE--DEPLOYMENTS AND EXERCISES

Mr. Hutto. The Subcommittee has authorized funding for increased training, deployment, and exercises. Would each of you describe the effect of this increased tempo on military family life and are our military families adequately cared for during these deployments and exercises?

SMA Gates. While we recognize that frequent separations are stressful for soldiers and families, especially for the spouses of junior enlisted soldiers, quality training is essential for the Army to fulfill its mission. Therefore, the Army has placed great emphasis on identifying successful family support initiatives that reduce this stress and ensure that our families are adequately cared for during separations. One of the most successful initiatives identified is the development of family support groups in deploying units. A family support group is a company or battalion affiliated organization of officer and enlisted family member volunteers that works in tandem with the commander, community, and, during deployments, the rear detachment, to ensure the provision of social and emotional support, outreach services, and information to family members prior to, during, and in the immediate aftermath of family separations due to deployments and field training exercises. Testimonials from commanders, soldiers, and family members attest to the success of family support group efforts, and we are encouraging their establishment in both our active and reserve components.

DEPLOYMENTS AND FAMILY COMMITMENTS

Mr. Hutto. We have heard that major portions of units which are called for deployment cannot deploy because of family commitments. How pervasive is this problem and what is the effect upon readiness?

SMA Gates. Mr. Hutto, it is true that family commitments can cause some soldiers to be unable to deploy. However, the Army assists the soldier to provide for the care of his or her dependent family members. We do not enlist nor commission single soldier parents. We expect all soldiers who are parents to make necessary arrangements to ensure that proper and adequate care is provided so they are available for duty. The Family Care Plan is one way we strive to have the soldier plan ahead. The Army policy requires each single soldier and dual service couple parent to be counseled about their responsibilities and the ways the Army will assist. It is, however, the soldier's responsibility to arrange for custodial care, emergency guardianship, and financial needs for all dependent family members, whether they are children or non-spouse adults. The soldier's commander must review and approve this Plan and keep it on file in the unit. This allows the commander to put it into effect if it is needed for any reason. It is not a perfect system, but we are tightening it up and a revision to the program is due out late this summer. This revision proposes a formal, acknowledged power of attorney, application for ID card, and voluntary allotment for support. We believe soldier parents are responsible for the care of their dependent family members. We cannot and will not sacrifice readiness even if it means discharging the soldier.

RELIANCE ON ON-BASE SUPPORT FACILITIES

Mr. Hutto. We have seen a major decline in the value of the dollar against most major currencies over the past several years. Does this cause more reliance upon on-base support facilities?

Are cost-of-living adjustments adequate for the increased cost of living overseas?

SMA Gates. Out-of-pocket expenses for soldiers stationed overseas are minimized by cost of living (COLA) and overseas housing allowances (OHA). These allowances are adjusted in response to currency fluctuations and have significantly helped soldiers and their families overcome the impact of sudden currency fluctuations. COLA is paid to soldiers to enable them to maintain their purchasing power for consumer-type items at a level commensurate with soldiers stationed in CONUS. The OHA system pays soldiers the amount of their actual rent, subject to an established rental ceiling. Both of these allowances are adjusted to account for currency fluctuations. For example, when a country's currency rate goes down the dollars paid to soldiers for COLA and OHA increase. To further reduce the impact of currency fluctuation, the SECDEF directed in March 1987 that an updated spendable income table be used for determining COLA rates, which has resulted in an overall 15% increase in COLA paid to soldiers. Based on the frequent adjustments to COLA and OHA and the results of the spendable income table, our soldiers are adequately being compensated for the increased cost of living overseas.

FORCE STRUCTURE VERSUS O&M ACCOUNT REDUCTIONS

Mr. Hutto. The Defense Budget is forcing some hard decisions. I wanted to use this opportunity to get your personal opinion on a fundamental matter before this Subcommittee. Would you favor force reductions or across-the-board reductions to the operations and maintenance account?

And, would you favor maintaining selected units at peak readiness as opposed to trying to maintain all units at a moderate level of readiness?

SMA Gates. We have configured our force structure specifically to meet our strategic requirements. We currently have a high quality and ready Army. While we are at the peak of quality and warfighting capability, we are on the margin when compared to the requirements of our national strategy and the international security environment. For a small Army to fulfill its essential strategic roles supporting U.S. national security interests, there can be no substitute for quality and no retreat from readiness.

Currently the Army maintains selected units at peak levels of readiness as well as others at lesser level of readiness. This is done by assigning each unit an authorized level of organization or ALO.

CHILD CARE

Mr. Hutto. Child care is an important program in all services. The backlog for construction of facilities is great, and only 50 percent of demand is being met.

General Jones in his statement addressed recent court decisions regarding civilian child care.

What problems do you see if civilian child care is integrated with the existing military child care development programs, and also what is your position with regard to civilians and union representatives being placed on the local base child care advisory committees?

What do you believe the impact of adding thousands of civilian children into the existing system will have on military families?

SMA Gates. We favor the integration of civilian child care with existing military child development programs--(Child Development Centers (CDC), Family Child Care (FCC) and Supplemental Programs and Services (SPS) as opposed to developing a dual track system with one program for civilians and one for the military. Inclusion of civilians and union representatives on the local installation child care advisory committee is compatible with the intent of the committee. The recently revised Army Child Development Services Regulation requires that CDS support/advisory groups will be organized to provide consumer input and patronage support. These groups will include substantial parental membership including sole and dual military parent representation, and may include representatives of installation support and regulatory agencies. Parental representation which reflects the mix of program services and program types offered on the installation will be included. These meetings will be open to all community residents.

The Army believes that the civilian child care need can be met. A survey is being developed to identify the exact extent of this need. Preliminary information indicates that the Army civilian work force is older than the military work force and that they tend to have more school-age than preschool age children. Local commanders determine the mix of child care delivery programs based on the installation requirements for care, so adjustments in space utilization may be made as required. CDC and FCC programs can be expanded and/or services redesignated to help meet the installation military and civilian child care needs. Construction of additions to existing CDCs may be necessary on some installations. The Army anticipated the need to provide child care to the civilian work force and developed a third service delivery system, SPS. The SPS system augments and supports the CDC and FCC programs by providing alternative child care programs and services.

One of the specified duties of the SPS director is to coordinate the availability of civilian child care for the installation. Other SPS options which will help meet the civilian child care demand are: School-Age/Latch Key, SPS Homes, CDS Resource and Referral Services, Private Organization Child Care, Contracted Child Care, and Parent Co-op programs.

QUALITY OF LIFE

Mr. Hutto. From each of your statements it is clear that you have visited bases and commands throughout the world and are familiar with quality of life and conditions at bases in Panama, Philippines, Greece, and Korea.

Would you describe conditions there as far as quality of life is concerned, the types of problems and concerns, and areas needing attention or our support?

SMA Gates. The Army provides basic quality of life services worldwide through morale, welfare and recreation, Army and Air Force Exchange Services, commissaries, medical and housing. Panama, Philippines, Greece and Korea are obviously our more isolated areas with relatively small troop concentrations. Quality of life services in these areas are somewhat austere as compared to bases in the United States. Major concerns in these areas start with personal safety. Instances of civil unrest and perceptions of anti-Americanism serve to raise anxiety levels of service members and their families. A feeling of isolation is precipitated by language barriers and living in a foreign culture. For soldiers with accompanying families, schools, housing, child care and general support programs are often perceived as inadequate. For the non-accompanied soldiers, family separation is a major issue. Soldiers are proud to serve their country and more than willing to endure the hardships and sacrifices of overseas assignments. We must continually seek methods to lessen these hardships. Recent budget reductions have reduced operating support to many quality of life programs. Placing a cap of funds expended on morale, welfare and recreation programs also inhibits the Army's ability to adequately support our quality of life efforts. Your continued support in assuring that it doesn't cost to serve overseas is needed.

COMMISSARIES

Mr. Hutto. Some of the military commissaries have reduced their operating hours, and there are some projections that the level of service in commissaries may be further reduced.

How important are commissary privileges, and how do each of you evaluate the present level of support?

SMA Gates. The commissary entitlement is a vital element of the military pay and benefits package which provides a nonpay compensation to military personnel and their families. The military family rates the commissary as the most important benefit next only to medical. Today's Army commissaries offer the military family modern, well stocked stores and the potential for tremendous savings. Commissaries currently provide an average twenty-five percent savings over comparable purchases in private sector supermarkets. Furthermore, commissaries foster a sense of community relationship among military personnel and their families and contribute to a sense of confidence that families are cared for by the military institution. All of these by-products translate into higher retention, readiness and morale. The Army leadership is also cognizant of the importance of the commissary entitlement and has included commissaries as an essential element in the Army Communities of Excellence Program.

The Troop Support Agency reapplied manpower savings generated through productivity initiatives and the Commercial Activities Program to increase operating hours during FY87 and FY88 to be compatible with other services. However, the Army commissary system received funding below the FY87 and FY88 levels of support and thus must reduce some commissary operating hours.

Within the budget constraints, Army commissaries are providing service personnel and their families an excellent level of support. To meet the needs of the increasing number of two working-spouse families, schedules were adjusted and increased to make shopping more convenient and to relieve congestion. This increase was achieved through rescheduling and increasing the number of part-time and intermittent employees.

The majority (85%) of Army commissaries are operating 5 or 6 days a week, with 26 commissaries operating on a full 7-day schedule. The Army is very proud of the fact that over 52 percent of our commissaries are now open for business either 6 or 7 days a week. This figure is quite significant when you note that only 29 percent of our stores were operating on this schedule 4 years ago.

BUDGET REDUCTIONS IMPLICATIONS

Mr. Hutto. I am sure that all of you are familiar with problems associated with the DoD Budget. The Defense Budget has actually decreased steadily since 1985, experiencing average real declines of 3 percent for the past four years.

President Bush's revised budget request is expected to contain further reductions.

There are some who are calling for greater reductions in readiness and the O&M account and less in the investment accounts. What are your views?

SMA Gates. The Army has lived through the "Hollow-Army" syndrome before and, in order not to repeat this, should protect those programs that ensure the quality of the force. Reductions should not inadvertently pre-empt actions which may result from the ongoing National Strategy Review.

QUALITY OF LIFE REDUCTIONS

Mr. Hutto. Do you believe that in today's budget environment it is possible to protect all quality of life and morale, welfare and recreation programs, or should some of these programs also experience reductions? If you have to choose, what programs would you fully fund, and what are those that can be reduced?

SMA Gates. Quality of life and morale, welfare and recreation (MWR) programs provide a high return on the investment we have in our trained soldiers. To reduce a soldier's quality of life sends a strong message to the soldier and his family about how his Army views his needs. Satisfaction decreases, the acceptability of service life is jeopardized and retention and readiness pay the price. Dollars spent on soldiers and their families pay large dividends in performance and overall unit success. There is no replacement for a motivated, high performing soldier who knows the Army cares about his overall well being.

Quality of life programs and MWR were reduced dramatically in FY88 and FY 89 along with other Army programs. Funding levels for MWR programs are below FY86 levels. Every effort is being made to follow Congressional guidance to operate in a more business-like manner to make up for appropriated funds lost to our MWR account. Commanders are dedicated to provide better child development services, relocation assistance, youth programs, and physical fitness programs designed to meet the needs of today's more sophisticated soldier.

The construction program in general has been reduced by over 30%. Many projects, to include physical fitness centers, recreation centers, libraries, barracks and chapels, have been deleted or deferred. In some cases needed construction has been delayed beyond the year 2000.

Medical care is an important quality of life factor for our soldiers and families and has generally been protected from reduction. We have, however, seen some draw down. For instance, the mammography program intended to make early detection of breast cancer routinely available to female soldiers and family members has been reduced. The PRIMUS clinic program has been held to 10 clinics rather than the 26 originally planned. Efforts are underway to recapture the CHAMPUS workload to reduce overall medical costs. In the meantime, soldiers and their families will incur significant out-of pocket expense for medical care not available in medical treatment facilities due to assignment location, accessibility or availability.

Quality of life programs are pervasive, affecting all aspects of a soldier's life. The Army cannot afford to further reduce funding for these programs. Soldiers must be secure in the knowledge that their families are well taken care of. Research has shown that, while we recruit soldiers, we retain families. We must remember this if we are to retain a highly trained, quality Army for the future.

Question: The subcommittee has authorized funding for increased training, deployment, and exercises. Would each of you describe the effect of this increased tempo on military family life and are our military families adequately cared for during these deployments and exercises?

Answer: Deployments, exercises and increased training, often create a strain on family cohesion and functioning. Adequately staffed Family Support Centers (FSCs) and effective family support systems play an important role in helping families effectively plan and cope with issues and concerns created by the deployment of the service member.

Question: We have heard that major portions of units which are called for deployment cannot deploy because of family commitments. How pervasive is this problem and what is the effect upon readiness?

CMSAF Binnicker: I've not heard nor do I know of any existing problems with any of our Air Force units. We can deploy and have the mechanism to assist our families. With the right planning and cooperation among base service agencies, the base leadership can help prevent deployment related problems.

HASC SUBCOMMITTEE ON READINESS

QUESTION: We have seen a major decline in the value of the dollar against most major currencies over the past several years. Does this cause more reliance upon on-base support facilities? Are cost-of-living adjustments adequate to compensate for the increased cost-of-living overseas?

ANSWER: Theoretically a decline in the value of the dollar against foreign currency should not increase our members and their dependents reliance upon on-base support facilities. However, as the dollar weakens, some opt to change their buying patterns or life styles simply because they do not want to pay the higher prices on the economy. This decision should not be necessary because of the payment of a cost-of-living allowance (COLA).

'A COLA is provided to members assigned overseas to help defray the added expenses associated with differences in costs between the continental United States (CONUS) and the overseas area to which the member is assigned. This important allowance is designed to maintain the member's purchasing power for non-housing expenses in the overseas area at an equivalent level with his/her peers in the CONUS. Housing costs are compensated for by the Overseas Housing Allowance program.

To determine the price differential between overseas areas and the CONUS, periodic surveys are conducted in all overseas areas of members' purchasing patterns (Living Pattern Survey) and the actual prices of more than 160 basic commodities and services (Market Basket Survey). These data are then compared against the actual prices for the same market basket in the CONUS and a percentage difference (COLA Index) is calculated. At a snapshot in time, and based on a specific exchange rate, overseas prices are balanced with CONUS prices.

Once the initial baseline COLA Index is established, fluctuations in the exchange rate are monitored daily. Based on this monitoring, the Department can adjust the COLA Index as often as every two weeks. Adjusting the Index will pay the member more COLA as the dollar decreases, or less COLA when the dollar is growing stronger. These adjustments ensure the member receives the proper number of dollars to buy the required foreign currency to continue the same purchasing pattern as reflected in the survey.

Accordingly, we believe that with the periodic surveys and constant monitoring of exchange rates, members receive adequate and timely adjustments to the COLA.

There is an age old myth among the troops that when an adjment in COLA favors the government the change is immediate--and when it favors the troop it takes forever to get in his paycheck. This is simply a perception--not reality.

Question: The defense budget is forcing some hard decisions. I wanted to use this opportunity to get your personal opinion on a fundamental matter that is before this subcommittee. Would you favor force reductions or across-the-board reductions to the operations and maintenance account? And, would you favor maintaining selected units at peak readiness as opposed to trying to maintain all units and a moderate level of readiness?

CMSAF Binnicker: First, I must say we've already taken a significant force reduction over the past several years. Based on these cuts and based on our current mission, we do not favor additional reductions. I would also be against across-the-board reductions to O&M accounts unless there is a corresponding reduction in the mission.

As to your second question, I would favor a smaller force at full readiness over a larger force at lower levels of readiness.

Question: Child care is an important program in all services. The backlog for construction of facilities is great, and only 50 percent of demand is being met. General Jones in his statement addressed recent court decisions regarding civilian child care. What problems to you see if civilian child care is integrated with the existing military child development programs, and also what is your position with regard to civilians and union representatives being placed on the local base child care advisory committees? What do you believe the impact of adding thousands of civilian children into the existing system will have on military families?

CMSAF Binnicker: I personally feel it sets a bad precedent. We can make it work but the military family will end up with the short end of the stick. There's not enough facilities to adequately take care of military families. To add more to the eligible pool will only make matters worse. I would not feel good about civilians and/or union representatives on local advisory committees.

Question: From each of your statements it is clear that you have visited bases and commands throughout the world and are familiar with quality of life and conditions at bases in Panama, Philippines, Greece and Korea. Would you describe conditions there as far as quality of life is concerned, the types of problems and concern, and areas needing our attention and support?

Answer: The increased tension level in Panama adds to the strain upon our families. They are not even certain about the security of their homes in our housing areas because of unauthorized entries by local nationals into the compounds. Increasingly limited access to the local economy has expanded reliance upon base facilities. To avoid confinement and cabin fever, bases must be prioritized to receive added fiscal and manning support. The situation in the Philippines has been exacerbated by thefts of property, burglaries, chronic local labor problems and mounting terrorist threats and actions. Since our Philippines installations are a vital part of our Pacific defense system, the welfare of our member's families threatens our morale and readiness. Family support services to the Philippine bases is very important and must be acted on promptly. A number of incidents in Greece regarding harsh penalties for traffic violations have been reported in the "Stars and Stripes." Many of our families have fears about going out into the economy because of acts of vandalism against their cars. Family Support Centers are scheduled to open at Hellenikon and Iraklion in FY 90. In Korea, the increasing violence of student anti-American demonstrations, plus a decline of the dollar has put undue pressures upon our families. As the Korean economy booms, our facilities decline or face neglect. Our members at Osan and Seoul need more housing to alleviate the shortage of decent accommodations. An immediate fix is needed to stem an increase of family problems and early returns.

Question: Some of the military commissaries have reduced their operating hours, and there are some projections that the level of service in commissaries may be further reduced. How important are commissary privileges, and how do each of you evaluate the present level of service?

CMSAF Binnicker: Store congestion and limited operating hours are a chronic problem in Air Force commissaries. Benefits from increased productivity have been passed to troops through increased operating hours...but much more needs to be done. We especially need to be sensitive to the needs of today's young people...in the dormitories, single parents, and working spouses. We need to be more flexible than ever before.

Commissary privileges are a vital part of the total military benefit package which provides an incentive for retention of personnel. Commissary privileges are considered the second most important of the military entitlement. While the current level of service to the shopping patrons is adequate, we need to be doing more to insure that commissary service remains a positive factor in retention of military personnel.

FUNDING OF MWR PROGRAMS

Question: Do you believe that in today's budget environment it is possible to protect all quality of life and morale, welfare and recreation programs, or should some of these programs also experience reductions? If you have to choose, what programs would you fully fund, and what are those that can be reduced?

Answer: It is not possible to make a judgement on which Morale, Welfare and Recreation (MWR) programs should be fully funded or receive reduced funding levels from Air Force Headquarters. MWR programs have traditionally been funded at lower levels than authorized by DOD and Air Force policy due to other competing priorities at the local level. Each installation commander makes decisions on which programs to fund based on the base environment competing priorities and available O&M resources. For instance at Air Training Command (ATC) bases, with their large training populations of first term airman, more emphasis is placed on

programs which meet the needs of the young, single population. At bases with a more mature work force more emphasis is placed on family programs. If reductions in O&M funding materializes, base commanders will be required to tailor their quality of life programs toward meeting the greatest needs within their funding capability.

DEPLOYMENT FAMILY CARE

Chairman Hutto: The Subcommittee has authorized funding for increased training, deployment, and exercises. Would each of you describe the effect of this increased tempo on military family life and are our military families adequately cared for during these deployments and exercises?

Master Chief Sikes: The Chief of Naval Operations has set an operating tempo of maximum 50 percent away from home port and a maximum six months deployments; holding fast to this rule can be directly correlated to increased retention. Also affecting retention is the ability to do what you're trained to do. Sailors need to go to sea and operate their equipment; operating at sea is needed to hone skills and compete. The challenge is to strike a proper balance between these operational requirements and the recognition that people need time with their loved ones.

The Navy has made vast improvements in taking care of families and preparing them for deployments. The Ombudsmen program success is one example. Navy Family Service Centers have organized courses on predeployment depression, reuniting families, bonding with children, to mention a few. However we must not become complacent; taking care of our families pays off in higher operational readiness by reducing human concerns our people would otherwise have.

Question: In your prepared statement, you say that the first contingency Marine Air-Ground Task Force to deploy to the Persian Gulf sailed with less than two days preparation. How well does the Marine Corps react in providing adequate support for those families left behind?

Answer: The unit that was called on to go to the Persian Gulf had just recently returned from Okinawa, so the tools for family support were already in place.

The First Marine Expeditionary Force located at Camp Pendleton continualy has units deploying. The Family Service Center and other support groups such as Wives Clubs, etc., are used to this. These support measures are the Marine way. Like the deploying units, our Family Service Center was prepared.

FAMILY COMMITMENT VS READINESS

Chairman Hutto: We have heard that major portions of units which are called for deployment cannot deploy because of family commitments. How pervasive is this problem and what is the effect upon readiness?

Master Chief Sikes: This is not a problem in the Navy. Less than five percent of our force are single parents and less than three percent of members in the Navy are married to other military members. We are watching this very closely in the Navy. Our people must be world wide assignable and deployable at any given moment.

NEW MWR PROGRAMS

Chairman Hutto: You mention in your prepared statement that the Navy is moving toward more customer responsive and self-supporting morale, welfare and recreation operations. Would you please describe some of the programs that are being initiated and the how are these being received by the enlisted personnel?

Master Chief Sikes: The Navy encourages a marketing approach to MWR programs. A patron needs assessment is the basic foundation for program development. The Navy conducts a comprehensive leisure needs assessment (Smart Compass) at one third of its installations each year. Random samples of active duty and other authorized participants evaluate the quality of base club and recreation programs and identify what leisure activities in which they participate or would like to participate. From this information local commands revamp their MWR programs as necessary. In addition commands conduct mini surveys, use customer feedback cards, personal interviews, focus groups, etc.

A recent example of successful focus groups is the Navy's Young Adult Program (YAP). This program involves a target population (18-25 yr. old single enlisted sailors) in developing programs and activities. Successful activities have included ski trips, parties, road rallies, concerts, comedy shows, etc. An off shoot is a skills development program that teaches sailors through clinics, various recreational skills. This not only equips sailors with skills needed to participate in wholesome off duty activities but brings added revenue to MWR facilities.

Another example of customer driven programs is the Navy's revamped arts and crafts program. Through a new name (CRAFTECH), a new logo and a completely new focus, commands are transitioning from the typical ceramic shop into "high tech" crafts of interest to the active duty sailor, i.e., computing, framing, model building, refinishing, etc. A special emphasis is on deployment craft kits and on revenue producing resale activities.

In the area of clubs, the Navy directed all installations to conduct a baseline assessment of all on base food and beverage outlets and to survey a random sample to ask patron preferences. The results will be used to chart the future course for Navy clubs. Changes are already occurring. Based on customer demand, clubs are consolidating, closing or changing concepts, i.e., all hands specialty restaurants, fast food/take out, banquets and catering. A good example is our sports bar concept in Sigonella, Italy. An enlisted club that was losing money was redesigned into a sports bar. The troops love it and it is self-supporting.

COLA AND THE OVERSEAS DOLLAR

Chairman Hutto: We have seen a major decline in the value of the dollar against most major currencies over the past several years. Does this cause more reliance upon on-base support facilities? Are cost-of-living adjustments adequate to compensate for the increased cost of living overseas?

Master Chief Sikes: Yes, the decline of the American dollar overseas does create more reliance upon on-base support facilities for sailors and their families. Cost-of-living adjustments are not adequate to compensate for the increased cost of living overseas. As I have said before, it is a Catch-22 situation. The falling dollar causes people to avoid going outside the base and that in turn distorts the true cost of living overseas.

FORCE REDUCTIONS

Chairman Hutto: The defense budget is forcing some hard decisions. I wanted to use this opportunity to get your personal opinion on a fundamental matter that is before this subcommittee. Would you favor force reductions or across-the-board reductions to the operations and maintenance account?

Master Chief Sikes: The Navy has managed to maintain a delicate balance between force and personnel reductions. Both choices will have potential negative effects in a higher operational tempo by impacting our ability to train and retain our people. We are not cutting our people in a vacuum. I do not advocate "selected" maintenance at the cost of decreased readiness in other units. Robbing Peter to pay Paul can have disastrous results in today's Navy, due to the dynamics between operational units and their support facilities.

CHILD CARE FACILITIES

Chairman Hutto: Child care is an important program in all services. The backlog for construction of facilities is great, and only 50 percent of demand is being met. General Jones in his statement addressed recent court decisions regarding civilian child care. What problems do you see if civilian child care is integrated with the existing military child development programs, and also what is your position with regard to civilians and union representatives being placed on the local base child care advisory committees? What do you believe the impact of adding thousands of civilian children into the existing system will have on military families?

Master Chief Sikes: Child care services are provided for military families in an effort to be competitive in recruiting and maintain readiness. Child care is not considered a benefit.

Navy child development facilities are sized based on military population. Both appropriated and nonappropriated funds subsidize the program. Currently civilian employees use the programs on a space available basis and pay a slightly higher fee (approximately 10%) than military patrons. With current resources we are only able to meet one-half the military requirements. We could integrate civilians into our existing programs if funds are appropriated for facility expansions or expansion of our family home care program. We do not believe it would be to the Services advantage to establish separate systems standards or programs for civilian and military personnel on an installation. This would in effect create competition for the same limited funds.

With regard to civilian and/or union representatives being placed on the advisory committee, the basic purpose of any advisory committee is to provide suggestions and recommendations to the command on the operation of a given program. When child development programs include children of civilian employees, civilian representatives on the advisory board would insure that all categories are represented in this important operation.

Adding civilians to the existing system will only serve to lengthen the waiting list (currently at 10,000) and increase the frustration of both populations. In order to meet the needs of both military and civilians, funding for facilities, whether government owned or leased, is necessary.

CONDITIONS IN PANAMA, PHILIPPINES, GREECE, KOREA

Chairman Hutto: From each of your statements it is clear that you have visited bases and commands throughout the world and are familiar with quality of life and conditions at bases in Panama, Philippines, Greece and Korea.

Would you describe conditions there as far as quality of life is concerned, the types of problems and concerns, and areas needing attention or our support?

Master Chief Sikes: The following is based on my personal visits or other information available to me:

Panama - Theft is prevalent and normally targeted at service members. Drugs are cheap and readily available;

Philippines - Status of Forces Agreement requires preferential hiring of Filipino nationals and precludes hiring of American personnel except in specific, very limited cases. Terrorist activities pose a continued threat to personnel, resulting in gate closures, curtailment of leave and liberty policies, travel restrictions, personnel recalls, and frequent security exercises. No after dark travel is presently permitted and only selected areas of the Philippines may be visited on a liberty basis. Uniforms may not be worn outside the gate. Prior approval for dependent travel must be obtained from higher authorities. People generally do not go off base because there are no wholesome recreation activities outside the gate;

Greece - Many young female sailors are uncomfortable in many recreational establishments. Greek roads are not the safe superhighways many youth have learned to drive on. Since driving is relatively in its first generation in Greece, Greek drivers are dangerously aggressive. Our sailors pay a tremendous amount for automobile insurance (mandatory) and usually can not collect on it. Greece is designated for the Environmental and Morale Leave (EML) program in recognition of extraordinarily difficult living conditions including the lack of convenient and adequate cultural, recreational opportunities. Greece has been recognized by office of the Secretary of Defense as a high terrorist threat area. The terrorist threat from all sources is classified "high/high", i.e., from terrorists permanently domiciled in the country and those passing through. Glyfada, the area of Athens most frequented by assigned personnel, has been on curfew for nearly two years and is frequently placed "off limits" for extended periods of time. At all times, U.S. personnel are discouraged from concentrating in any off base recreation establishment. Greece has annual inflation rate of 20-40% and has high unemployment.

Korea: Cost of living is becoming a problem. The devaluation of the dollar and inflation has hit Korea also. Housing is inadequate and in short supply. Housing on the economy lacks security, not to mention things like heat, palatable water, etc.

Overall Concern - Additional appropriated fund support is needed for our MWR activities overseas to offset the requirements of burdensome Status of Forces Agreements (SOFAs). These agreements require employment of primarily local national employees, generally at high rates of pay with generous benefit packages. SOFAs are negotiated by the State Department with little or no input from our MWR activities. Their generous composition is designed to advance the interests of the U.S. Government in that country. Unfortunately, our sailors are then forced to subsidize this generosity through labor costs far greater than would be required in the U.S. or even if they were allowed to hire more dependents or local U.S. citizens.

For example, in Bermuda and Iceland, MWR is required to hire primarily local national employees and pay them almost twice as much as U.S. employees receive. In the Far East, the weakening of the dollar and generous benefit packages have driven labor costs up by similar amounts. The same problems exist in Greece and the rest of Europe.

The additional funding requirements caused by SOFAs are beyond the control of our MWR activities and our sailors and are designed to further the diplomatic interests of the U.S. Government. Thus, any additional appropriated fund support that might be obtained should not be charged against the "cap" on appropriated fund support for MWR.

At all our overseas sites, the common concerns are adequate housing, medical care, and DOD schools. Vandalism is a problem in several overseas locations. The commissaries are very important in providing basic needs but are also a morale factor in keeping our families in an American life style.

COMMISSARY PRIVILEGES

Chairman Hutto: Some of the military commissaries have reduced their operating hours, and there are some projections that the level of service in commissaries may be further reduced.

How important are commissary privileges, and how do each of you evaluate the present level of service?

Master Chief Sikes: Periodic surveys and polls show that commissaries are recognized, after health care, as the single most valuable benefit by Navy members and families. They are very important in providing basic needs, and overseas they are a morale factor in keeping our families in an American life style.

The level of service corresponds to the hours stores are open. When there is less money available for employee salaries, stores are open less hours.

DEFENSE BUDGET CUTS

Chairman Hutto: I am sure that all of you are familiar with problems associated with the DOD budget. The defense budget has actually decreased steadily since 1985, experiencing average real declines of three percent for the past four years.

President Bush's revised budget request is expected to contain further reductions.

There are some who are calling for greater reductions in readiness and the O&M account and less in the investment accounts. What are your views?

Do you believe that in today's budget environment it is possible to protect all quality of life and morale, welfare and recreation programs, or should some of these programs also experience reductions? If you have to choose, what programs would you fully fund, and what are those that can be reduced?

Master Chief Sikes: MWR programs should take their fair share of budget restrictions but funding should be protected since surveys continue to document the contributions quality MWR programs make in areas of recruitment, retention, job satisfaction and job proficiency.

As stated previously, local commanders, based on local patron input and participation, should determine which, if any, MWR programs should be eliminated.

Congressman: The Subcommittee has authorized funding for increased training, deployment, and exercises. Would each of you describe the effect of this increased tempo on military family life and are our military families adequately cared for during these deployments and exercises?

SgtMaj Sommers: There will always be family problems caused by our operation tempo or any separation. We will never fix all problems for all Marines. However, I believe we are doing very well in this area. Our families began there planning for these deployments early. The units hold instructions for the wives in the form of family days. Our Commanders put a lot of time and effort to make the hardship of separation as easy and well prepared as possible.

The officer and staff noncommisioned officer wives also play a part in this by forming support groups with the units.

Congressman: We have heard that major portions of units which are called for deployment cannot deploy because of family commitments.

How pervasive is this problem and what is the effect upon readiness?

SgtMaj Sommers: This is not true of any of the deploying units in the Marine Corps. I am not saying our families have no problems with deployments, but they are prepared. Readiness is what your Marine Corps is all about.

Congressman: We have seen a major decline in the value of the dollar against most major currencies over the past several years.

Does this cause more reliance upon on-base support facilities?

Are cost-of-living adjustments adequate to compensate for the increased cost of living overseas?

SgtMaj Sommers: Yes I have seen the effect of the decline in the U.S. dollar overseas. It has forced the Marines and their families to place a bigger importance on base facilities.

I believe compensation is adequate. If a Marine uses the base PX, commissary, and other facilities they have no problem.

Congressman: The Defense Budget is forcing some hard decisions. I wanted to use this opportunity to get your personal opinion on a fundamental matter that is before this subcommitee.

Would you favor force reductions or across-the-board reductions to the operations and maintenance account?

And, would you favor maintaining selected units at peak readiness as opposed to trying to maintain all units and a moderate level of readiness?

SgtMaj Sommers: I do not favor any force reductions. Your Marine Corps cannot stand further cuts without cutting more units. We have no "nice to have" billets to cut.

In your Marine Corps we have two types of units in our Fleet Marine Force. Those that are deployed and those that are training and preparing to deploy. There can be no moderate level of readiness, you are either prepared to do what must be done to protect the nation or you are not.

Congressman: Child care is an important program in all services. The backlog for constructon of facilities is great, and only 60 percent of demand is being met.

General Jones in his statement addressed recent court decisions regarding civilian child care.

What problems do you see if civilian child care is integrated with the existing military child development programs, and also what is your position with regard to civilians and union representatives being placed on the local base child care advisory committees?

What do you believe the impact of adding thousands of civilian children into the existing system will have on military families?

SgtMaj Sommers: I see the same old problem of affordable care for our younger families. To bring in civilians, union representatives to sit in on advisory committees is placing more duty experts on military bases that don't know the problem of the military families.

On adding thousands of civilian children into the existing system, the existing system can't handle all the military children now. I believe any addition would hurt the system. I also believe control would present a problem. Would you propose these child care centers be off the base or on base? If on base how do you recommend we control these people? Yes I believe it would present a big problem.

Congressman: From each of your statements it is clear that you have visited bases and commands throughout the world and are familiar with quality of life and conditions at bases in Panama, Philippines, Greece, and Korea.

Would you describe conditions there as far as quality of life is concerned. The types of problems and concerns, and areas needing attention or our support?

SgtMaj Sommers: Your Marine Corps has very few Marines stationed in these places. Those that are there have good support.

Congressman: Some of the military Commissaries have reduced their operating hours, and there are some projections that the level of service in Commissaries may be further reduced.

How important are Commissary privileges, and how do each of you evaluate the present level of service?

SgtMaj Sommers: Our Commissaries are very important to both the active duty Marine and our retired community. It is one of the LAST benefits we still have that we can see a savings in.

Each base should be allowed to continue to arrange their hours according to the needs of the command and its mission.

Each year we must continue to fight to keep these commissaries intact. This is an extremely important issue with us both active and retired, and we need your continued support to keep them intact.

Congressman: I am sure that all of you are familar with problems associated with the DOD Budget. The Defense Budget has actually decreased since 1985, experiencing average real declines of 3 percent for the past four years.

President Bush's revised budget request is expected to contain further reductions.

There are some who are calling for greater reductions in rediness and the O & M account and less in the investment accounts. What are your views?

Do you believe that in today's budget enviroment it is possible to protect all quality of life and morale, welfare and recreation programs, or should some of these programs also experience reductions? If you have to choose, what programs would you fully fund, and what are those that can be reduced?

SgtMaj Sommers: I do not believe it is possible to protect all quality of life and MWR programs under the current budget. You are asking us to choose between readiness and quality of life. There can be no choice. Readiness is what your Marine Corps is all about. The question should be asked of the American people. I believe this country wants a strong defense and a high state of readiness but are not willing to pay for it. The military under the present and continued budget cuts cannot help but be the loser. We have been on the receiving end of these cuts any time reductions were necessary. A reward for serving ones country should not be a life of poverty, yet, that is what is asked of our young people.

If I had to choose a program to be fully funded I would choose the MV-22. We need this aircraft. We need its capability. To me this is a quality of life issue as well. In order to have quality of life you first must have a life. Without this aircraft and the capability that it provides we are going to lose our over the horizon capability, and that means a higher casualty rate.

Our Commandant in driving our Corps to win in future conflicts we are not living and training in the past. We can fight and we can win but we need to get there first. The MV-22 is my choice.

About reducing programs, I am not to sure about this. I do believe we can't be all things to all people. However, I am of the opinion that a smarter use of the military would show a savings.

REVISED BUDGET REVIEW

House of Representatives,
Committee on Armed Services,
Readiness Subcommittee,
Washington, DC, Wednesday, May 3, 1989.

The subcommittee met, pursuant to call, at 1:35 p.m., in room 2118, Rayburn House Office Building, Hon. Earl Hutto (chairman of the subcommittee) presiding.

STATEMENT OF HON. EARL HUTTO, A REPRESENTATIVE FROM FLORIDA, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. Hutto. The Subcommittee on Readiness will be in order.

This afternoon we will receive testimony from witnesses concerning the revised 1990/91 DOD authorization request. Secretary of Defense Cheney has reduced the original Reagan request by $20 billion for the 2 years, $10 million in each year. Most of the reductions are being proposed for the procurement accounts, but the operation and maintenance requests are being reduced by $1.5 billion in each year.

The subcommittee is obviously interested in how the services plan to accommodate these proposed reductions and what the readiness levels will look like if the reductions are approved.

We have with us today Mr. John A. Flinn, Director of Operations, Office of the Comptroller, Department of Defense; Brig. Gen. Robles, Assistant Director of Operations, Army Budget Office, Department of the Army; Rear Adm. Raymond M. Walsh, Director, Operations Division, the Chief of Naval Operations, Department of the Navy; Lt. Gen. W.G. Carson, Junior, Deputy Chief of Staff, Installations and Logistics, U.S. Marine Corps; and Brig. Gen. John L. Finan, Director of Budget Operations, Department of the Air Force.

We are delighted to have all of you with us.

Our first witness will be Mr. John Flinn, Director of Operations in the Department of Defense, Office of Comptroller.

Mr. Flinn, we are ready for your statement.

STATEMENT OF JOHN A. FLINN, DIRECTOR OF OPERATION, OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE

Mr. Flinn. Yes, sir.

I would like to just summarize some of the major adjustments that we have made in the O&M title and then turn to my colleagues for any remarks that they wish to make.

Mr. Hutto. All right, sir. Without objection, your statement will be entered in the record.

Mr. **Flinn.** The amended budget request at the O&M title level is $90.4 billion, a reduction of $1.4 billion from the initial 1990 request, and $94.0 billion in fiscal year 1991, reflecting a $1.5 billion decrease from the January submission.

The O&M title has received approximately 15 percent of the $10 billion overall reduction in Defense. This smaller share represents the Department's and the Secretary's decision to protect force readiness. Thus, the adjustments relate to force structure changes and rephasing of support due to equipment cancellations or deferrals.

While operating tempos and training rates remain unchanged from the January budget, the amendment does reflect deferrals of most planned improvements in logistic support programs, and growth in the backlogs for depot and real property maintenance and decreases in base operating support.

The economic factors upon which the budget is based remain the same, they are unchanged. I am referring to civilian pay raise rates, stock fund and industrial fund rates, and the general purchase inflation rate.

We have reflected an update of foreign currency rates, based on improvements experienced over the last 4 months, and the request now reflects a reduction of $351 million and $357 million, respectively, for fiscal years 1990 and 1991, based on these revised rates.

Turning to the Defense-wide accounts, the defense agencies, these appropriations represent about 10 percent of the budget, and while accounts such as the environmental restoration, base closure, and the inspector general have not been adjusted, the defense agencies' appropriation has shared in the reduction.

This request also reflects resources for the humanitarian assistance appropriation, which was an omission in the January submission.

Overall, the defense agencies' appropriation has been reduced an approximate $63 million in fiscal year 1990 and approximately $89 million in fiscal year 1991 from the original submission.

The largest program reduction occurs in what we classify as the military support category, approximately $45 million in 1990 and $62 million in 1991 from the initial request.

The most significant decrease in this area has occurred in the dependents school program, which defers some planned enhancements and results in a slight increase in the student-to-teacher ratios without seriously affecting the overall education programs.

The next largest category of reduction in the Defense-wide area is in what we classify as the readiness category, with a reduction of approximately $22 million and $25 million in fiscal years 1990 and 1991.

There is a significant increase in the Defense Logistics Agency, which reflects a realignment of funds for the charter of preposition tanker ships which was previously financed by the Army and the Navy. We have realigned resources from both the Army and the Navy to the DLA.

The balance of the adjustments in the Defense-wide area are rather small and general reductions across the board.

Mr. Chairman, that concludes my summary, and I will now turn to Generals Robles and Finan and Admiral Walsh for any remarks that they may care to make.

PREPARED STATEMENT OF JOHN A. FLINN

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you to discuss the amended FY 1990 and FY 1991 budget requests for the Operation and Maintenance accounts.

With me today are my counterparts from the Military Departments, Brigadier General Robles, Rear Admiral Walsh, and Brigadier General Finan. I would like to begin by summarizing the changes that occurred in the amendment for the O&M title, provide you with a brief overview of the Defensewide O&M accounts, and turn the table over to my colleagues for any remarks they may wish to make.

For FY 1990, the amended O&M budget request at the title level is $90.4 billion which reflects a reduction of $1.4 billion in total obligational authority from the initial FY 1990 budget request. The amended request for FY 1991 is $94.0 billion, reflecting a $1.5 billion decrease from the January budget. The following chart identifies the adjustments by Military Departments and an attachment to this statement reflects the changes by appropriation:

	FY 1990		FY 1991	
($ in Millions)	January Budget	Change	January Budget	Change
Army	27,008	-562	28,369	-688
Navy	29,297	-332	30,522	-362
Air Force	26,328	-470	27,097	-351
Defensewide	9,218	-51	9,530	-76
Total	91,851	-1,415	95,518	-1,477

The O&M title received about fifteen percent of the $10.0 billion DoD reduction stemming from President Bush's budget revision and the recent summit agreement. This smaller share of the DoD total reduction reflects the Secretary's decision to protect force readiness. Thus, the adjustments primarily represent programmatic changes in force structure and rephasing of support due to equipment cancellations and deferrals. However, while operating tempos and training rates remain unchanged from the January budget, the accounts reflect deferrals of most planned improvements in logistical support programs. Consequently, the backlogs of depot and real property maintenance will grow and the level of base operating support services will likewise decrease.

The economic factors affecting price growth for O&M programs (civilian pay raises, fuel and non-fuel stock fund, industrial fund, and the general purchases inflation rates) remain the same as in the initial biennial budget submission; however, the amendment does reflects an update for foreign currency rates. Improvement in these rates during the last four months enabled us to reduce the amounts initially budgeted for FY 1990 and FY 1991 by $351 and $357 million, respectively. The new rates are based on those in effect at the end of March 1989 with the Deutsch Mark pegged at 1.89:$1 for FY 1990/FY 1991 which contrasts with the budgeted rate of 2.06: $1 in FY 1989.

Turning to an overview of the Defensewide accounts --- these appropriations constitute about ten percent of the budget, and while accounts such as Environmental Restoration, Base Closures, and the Inspector General have not been adjusted in the amendment, the Defense Agencies appropriation reflects a share of the reductions and the Humanitarian Assistance account was increased to correct an omission in the January submission. An attachment to my statement shows the program adjustments associated with each Agency.

Overall, the Defense Agencies appropriation has been reduced a total of \$63.4 million in FY 1990 and \$89.2 million in FY 1991 from the original submission of \$8,085.0 million and \$8,408.1 million, respectively, for those years.

The largest program reductions occur in the Military Personnel Support category where \$45.2 million has been reduced in FY 1990 and \$62.4 million in FY 1991. The most significant decrease in this category occurs in the dependents school activity with reductions of \$41.6 million in FY 1990 and \$56.9 million in FY 1991. These reductions will cancel some planned enhancements in the education program and result in slight increases in the personnel to student ratio without serious adverse effect on the overall educational programs.

The Readiness category includes reductions of \$22.0 million in FY 1990 and \$25.0 million in FY 1991 for the Defense Mapping

Agency which primarily reflects reductions in contract efforts associated with the production of new products and the revision of existing products.

The JCS Exercise program is reduced $7.0 million in FY 1990 and $9.9 million in FY 1991. The reductions equate to a decrement of approximately 1,700 airlift hours and 26 sealift days in FY 1990 and 2,400 airlift hours and 38 sealift days in FY 1991. The revised funding will provide for 69,940 equivalent C-141 flying hours in FY 1990 and 69,240 flying hours in FY 1991.

There are program increases of $28.1 million in FY 1990 and $28.0 million in FY 1991 for the Defense Logistics Agency. The increase primarily reflects funds transferred in both years to DLA from the Army ($-14.6 million) and the Navy ($-14.6 million) to support charter costs associated with afloat prepositioning tanker ships.

The next major area of program adjustment occurs in the Defense Management Support category with program reductions of $12.1 million in FY 1990 and $13.1 million in FY 1991. These reductions are being taken predominately in the area of contract efforts, including studies and support services, ADP, and office modernization efforts.

Mr. Chairman and members of the Committee, this completes my statement. I will now turn to Generals Robles and Finan and Admiral Waish for their remarks and will be happy to answer any questions you may have after they finish.

O&M Appropriations
Amended FY 1990/1991 Budget
(TOA $ in Millions)

	FY 1990 Initial	FY 1990 Amended	90-90 Change	FY 1991 Initial	FY 1991 Amended	91-91 Change
Army	27,007.5	26,445.4	-562.1	28,368.9	27,681.4	-687.5
Army	24,262.5	23,708.6	-553.9	25,551.2	24,876.9	-674.3
Army Reserve	867.1	861.9	-5.2	907.6	902.6	-5.0
Army National Guard	1,873.2	1,870.2	-3.0	1,904.5	1,896.3	-8.2
Rifle Practice, Army	4.7	4.7	-	5.6	5.6	-
Navy	29,297.2	28,965.5	-331.7	30,522.0	30,159.7	-362.3
Navy	26,490.3	26,191.8	-298.5	27,626.0	27,287.8	-338.2
Marine Corps	1,745.1	1,716.3	-28.8	1,802.5	1,775.5	-27.0
Navy Reserve	984.4	980.0	-4.4	1,014.1	1,017.0	2.9
Marine Corps Reserve	77.4	77.4	-	79.4	79.4	-
Air Force	26,328.4	25,858.0	-470.4	27,097.6	26,747.1	-350.5
Air Force	23,265.2	22,812.2	-453.0	23,869.6	23,545.1	-324.5
Air Force Reserve	1,007.4	1,004.6	-2.8	1,043.1	1,041.3	-1.8
Air National Guard	2,055.8	2,041.2	-14.6	2,184.9	2,160.7	-24.2
Defensewide	9,217.6	9,166.8	-50.8	9,529.8	9,453.6	-76.2
Defense Agencies	8,085.0	8,021.6	-63.4	8,408.1	8,318.9	-89.2
Inspector General	95.8	95.8	-	97.6	97.6	-
Court of Military Appeals	4.0	4.0	-	4.2	4.2	-
Goodwill Games	15.0	14.6	-.4	-	-	-
Base Closure	500.0	500.0	-	500.0	500.0	-
Environmental Restoration	517.8	517.8	-	519.9	519.9	-
Humanitarian Assistance	-	13.0	13.0	-	13.0	13.0
Total Obligation Authority	91,850.7	90,435.7	-1,415.0	95,518.3	94,041.8	-1,476.5
Financing Adjustments	-126.0	-237.2	-111.2	-	-	-
Total Budget Authority	91,724.7	90,198.5	-1,526.2	95,518.3	94,041.8	-1,476.5

DEFENSE AGENCIES
(Dollars in Millions)

	FY 1990 Initial	FY 1990 Revised	Change	FY 1991 Initial	FY 1991 Revised	Change
Readiness						
DMA	543.7	521.7	-22.0	620.1	595.1	-25.0
DLA	2,087.0	2,115.1	+28.1	2,033.0	2,061.0	+28.0
JCS Exer	280.6	273.6	-7.0	286.3	276.4	-9.9
Total	2,911.3	2,910.4	-.9	2,939.4	2,932.5	-6.9
Intelligence/Communications						
Total	2,774.1	2,771.0	-3.1	2,900.2	2,900.0	-.2
Audit/Investigative Activities						
DIS	178.2	176.1	-2.1	189.9	183.3	-6.6
DCAA	330.1	330.1	-	353.3	353.3	-
Total	508.3	506.2	-2.1	543.2	536.6	-6.6
Defense Management Support						
OSD	119.4	118.2	-1.2	123.0	121.1	-1.9
JRAP	33.0	30.8	-2.2	36.0	32.5	-3.5
WHS	137.0	133.9	-3.1	164.0	158.8	-5.2
DTSA	10.6	6.8	-3.8	10.6	10.6	-
DNA	75.4	73.4	-2.0	84.8	82.8	-2.0
OSIA	49.8	50.8	+1.0	48.8	49.8	+1.0
OJCS-MgtHq	60.7	60.0	-.7	64.4	63.0	-1.4
OEA	29.6	29.5	-.1	31.4	31.3	-.1
DLSA	6.8	6.8	-	7.1	7.1	-
Total	522.3	510.2	-12.1	570.1	557.0	-13.1
Military Personnel Support						
AFIS	73.5	71.8	-1.7	77.4	74.8	-2.6
OCHAMPUS	48.1	47.0	-1.1	51.6	49.9	-1.7
ODE	1,108.4	1,066.8	-41.6	1,184.7	1,127.8	-56.9
USUHS	37.4	36.6	-.8	38.6	37.4	-1.2
DMSA	101.6	101.6	-	102.9	102.9	-
Total	1,369.0	1,323.8	-45.2	1,455.2	1,392.8	-62.4
GRAND TOTAL	8,085.0	8,021.6	-63.4	8,408.1	8,318.9	-89.2

Mr. HUTTO. All right, gentlemen, you may proceed.

STATEMENT OF BRIG. GEN. JOSUE ROBLES, JR., ASSISTANT DIRECTOR FOR OPERATIONS, ARMY BUDGET OFFICE

General ROBLES. Thank you, Mr. Chairman. I'm delighted to get the chance to reappear before your committee. It wasn't very long ago that I was here with Lieutenant General McCall.

I would like to summarize the statement that I have provided for the record, and I would say first of all that this was a difficult process. It seems when you get down to the last few cuts they get more and more difficult. For the Army it was particularly difficult to reduce about $554 million out of the 1990 request and another $674 million out of the 1991 request.

As Mr. Flinn said, we did factor into these reductions the re-evaluation or re-estimation of the currency requirement. This was a significant amount of adjustment as we considered a more favorable currency rate in the next couple of years.

Our reductions primarily reflect results of the force structure reductions that we have taken in the Army plus some associated support costs with these force structure reductions.

Additionally, our reductions reflect some logistical support activities and some logistical supply operations that we had planned to do some improvements on that will not be realized.

Regrettably, the area that we had to turn to and that I personally would not have liked to reduce is our base operations and real property maintenance accounts. We had to reduce over $300 million over both years in both of those accounts These reductions came at the expense of things like our combat field feeding system, and our planned community and morale support activity programs. Most of the reduction in the maintenance and repair area were done with a lot of great pain. We, in fact, agonized over those particular reductions.

Finally, I think if there is a positive side—and I look at the positive side of everything—from an Army perspective, we maintained our Army priorities to protect our near-term readiness. We did protect our operating tempos, and we did protect our flying hour program. We also protected our depot maintenance program, and did not further the backlog in our depot maintenance accounts. Last, we have financed our most essential environmental projects.

So I guess from a summary point of view, from an Army perspective, we, in fact, sir, did protect near-term readiness and sustainability in the Army.

PREPARED STATEMENT OF GENERAL ROBLES

Mr. Chairman and Members of the Committee, I am delighted to have the opportunity to come before you again to present the Army's Amended FY 1990/91 Operation and Maintenance, Army (OMA) Appropriation biennial budget request.

The Amending of the FY 1990/91 OMA budget was a very difficult process for the Army. We had a balanced program that supported Army priorities with a minimum level of funding. Now we are forced to reduce an already austere appropriation down an additional $554 million dollars in FY 1990 and $674 million dollars in FY 1991.

As you are aware, the OMA appropriation provides the essential funding to support the Army leadership's vision of how the Total Army should prepare for land combat today and tomorrow. In making our reductions, we protected near-term readiness. Without adequate readiness, our soldiers would be unable to fight and utilize their equipment effectively to execute our national military strategy. After careful and deliberate thought, the Army leadership took major program reductions in Base Operations, Real Property Maintenance Activities, Central Supply and Transportation, and Medical programs. Additionally, a foreign currency adjustment from Deutsche Mark 1.75:$1 to 1.89:$1 caused a $205 million reduction in FY 1990 and a $209 million reduction in FY 1991 which affected the majority of the subprograms.

Chart one is a listing of the OMA budget by budget category, which shows the resulting dollar allocation:

FY 1990 - 1991 AMENDED BUDGET

OPERATION & MAINTENANCE, ARMY SUMMARY

(CURRENT $ IN MILLIONS)

PROGRAM/SUBPROGRAM	FY 88	FY 89	FY 90	FY 91
OMA TOTAL	**21,482**	**22,463**	**23,709**	**24,877**
P2M GENERAL PURPOSE FORCES	3,860	3,727	4,095	4,205
P3I INTELLIGENCE	301	308	344	368
P3C C3 & INFO SUPPORT	977	1,007	1,132	1,232
P7S CENTRAL SUPPLY	2,979	3,058	3,245	3,330
P7M DEPOT MAINTENANCE	2,022	2,422	2,656	2,763
P7E ENVIRONMENTAL RESTORATION	170	228	0	0
P8T TRAINING	1,116	1,136	1,201	1,242
P8M MEDICAL	2,267	2,440	2,569	2,726
P8O OTHER GEN PERS SPT	763	716	774	779
P9S ADMINISTRATION	839	952	1,006	1,040
P10 SPT TO OTHER NATIONS	240	251	258	267
P11 SOF	199	197	219	223
P12 BASE OPNS	2,899	2,918	3,019	3,143
P12 RPMA	2,821	3,096	3,305	3,559

NOTE: MAY NOT ADD DUE TO ROUNDING

03 APR 90

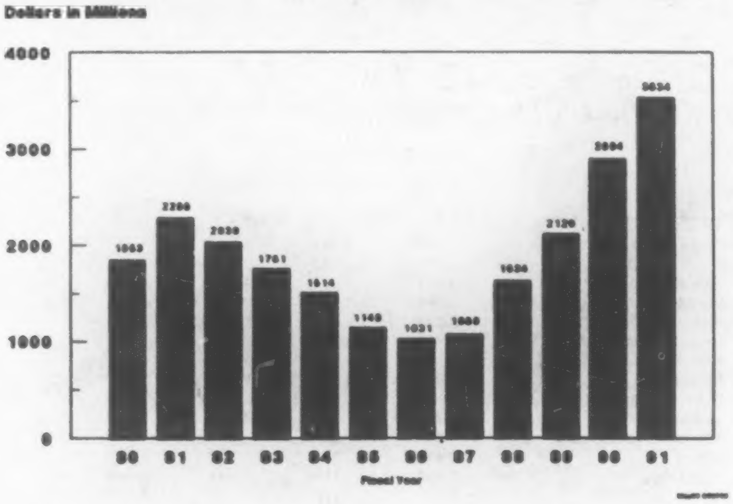
The Base Operations and Real Property Maintenance reductions continue to aggravate an already serious problem. Lieutenant General McCall and I were just before this Committee two months ago, and we told you that this program needed assistance. Unfortunately, we had to reduce quality of life programs such as community and morale support activities, the Army field feeding system, and various other installation programs. All of these reductions hurt the Army and will impact on morale and support of Army near-term readiness.

In the Real Property Maintenance Activities, the largest part of the reduction went against Maintenance and Repair. Because of the Amended Budget, the Backlog of Maintenance and Repair (BMAR) grows to $2,894 million in FY 1990 and to $3,534 million in FY 1991. The continued deterioration of the Army's infrastructure will ultimately impact force readiness. Soldiers will be required to work in deteriorated surroundings which adversely impacts on morale and unit war fighting capabilites. In addition, the Army will have to slow its environmental compliance response. Again, these reductions are painful and demonstrate the level of hurt that we are experiencing in the Army.

Chart two shows you the BMAR trail since FY 1980.

OPERATION AND MAINTENANCE, ARMY

OMA Backlog of Maintenance and Repair (BMAR)



Current year $'s

The Army attempted to protect Central Supply and Transportation from reductions due to the austere funding levels already being experienced in this program. Despite our best efforts, we were forced to apply decrements of $35 million in FY 1990 and $48 million in FY 1991. This further aggravates the problems we are experiencing in FY 1989 in this activity. Planned marginal improvements in ammunition demilitarization, supply operations, and industrial preparedness will not materialize as a result of these reductions.

The medical reduction of $12 million in FY 1990 and $15 million in FY 1991 will move CHAMPUS workload into the direct care system through management efficiencies. An example of these efficiencies is the increased use of the partnership agreement program. Under this program, health care providers are brought into military medical treatment facilities to treat CHAMPUS beneficiaries, for negotiated fees that are below the respective state allowable limit.

To reiterate the Army's previous position, and to assist us in this period of severe fiscal constraints, the removal of statutory and administrative limitations would greatly increase our commanders' flexibility in adjusting resources to meet our needs. This is especially true in the areas of Advertising; Morale Welfare and Recreation; Depot Maintenance; and Real Property Maintenance Activities. Commanders in the field need this flexibility to meet unexpected contingencies or to exploit opportunities. This will allow them to be even better managers -- to do more with less.

The Army stands committed to the belief that maximum readiness depends on a rational balance among the investment, personnel, and operation and maintenance appropriations. The budget adjustments protected the Army's goal of maintaining its current readiness and continuing its modernization effort. Our Amended Budget reinforces the need for good stewardship over the scarce resources that we have been allocated. As you can surmise, we can certainly use more funding. Given the fiscal realities of the defense budget reductions and the significant decreases in other elements of the Army budget, we feel that responsible use of these operating resources will allow us to maintain and support the Army's readiness posture.

Mr. HUTTO. Thank you, General Robles.

Who is next? Admiral.

STATEMENT OF REAR ADM. RAYMOND M. WALSH, DIRECTOR, OPERATIONS DIVISION, OFFICE OF BUDGET AND REPORTS, DEPARTMENT OF THE NAVY

Admiral WALSH. Mr. Hutto, I also have a statement for the record which I would like to submit.

Mr. HUTTO. Yes, sir, it will be submitted.

Admiral WALSH. It is fairly short, and I think it outlines in some detail what adjustments we have made. Beyond that, I have no other comments, sir.

Mr. HUTTO. OK. Can you give us just a brief summary?

Admiral WALSH. Yes, sir.

We have made force level reductions which have included one aircraft carrier in 1990, the U.S.S. *Coral Sea* and a reduction of nine DDG's——

Mr. HUTTO. May I ask you, where is the *Coral Sea* homeported?

Admiral WALSH. In Norfolk, Virginia, sir.

Mr. HUTTO. Norfolk.

Admiral WALSH. Yes, sir.

Mr. HUTTO. Would it be commissioned in fiscal year 1990? Is that the plan?

Admiral WALSH. Yes, sir. It was planned to remain in commission through 1992. With the commissioning of the *Abraham Lincoln* in 1990 we will decommission the *Coral Sea*. We will maintain 14 carriers.

Mr. HUTTO. All right, sir.

Admiral WALSH. We have accelerated the decommissioning of some older guided missile destroyers. We are transferring four 1052 class frigates in 1990 and an additional six in 1991 from the active Navy to the Reserves, and we are taking out 73 older P-3 aircraft and redistributing the remaining aircraft between the active maritime patrol squadrons and the reserve maritime patrol squadrons.

In addition, we too have had some adjustments made as a result of the foreign currency rates, a 2-percent reduction in base operating support, offset by an increase in medical to reflect those changes which have been approved by the Secretary of the Navy as a result of the Blue Ribbon Panel.

Prepared Statement of Adm. Raymond M. Walsh

NAVY OPERATION AND MAINTENANCE APPROPRIATIONS

I appreciate the opportunity to appear before you today to discuss the the Navy's Amended FY 1990 and FY 1991 budget request for the Operation and Maintenance appropriations.

As a result of the budget amendment the FY 1990 and FY 1991 topline for the Navy's Operation and Maintenance appropriations was reduced by $303.0 million and $335.3 million, respectively, from the original FY 1990/1991 President's Budget submitted in January 1989. This equates to a 1.1 percent reduction in FY 1990 and a 1.2 percent reduction in FY 1991. Adjustments to the operation and maintenance accounts reflect the Department's priority to protect the readiness of our forces. These adjustments are due primarily to changes in force structure. We think we have avoided risk beyond acceptable levels and are able to maintain our capability to meet national commitments.

The amended budget provides for a total deployable Battle Force of 563 ships by the end of FY 1990 or 11 fewer ships than originally projected in the January 1989 Biennial Budget submission. In FY 1990, the Navy will accelerate retirements of one aircraft carrier, the USS CORAL SEA (CV-43), nine additional guided missile destroyers and one converted auxiliary repair vessel, the USS SPHINX (ARL-24). In addition, four frigates will be transferred to the Navy Reserve and there is an overall reduction of 73 P-3 aircraft. These changes allow for a reduction of 5,600 military end strength. In FY 1991, force level changes include the accelerated retirements of five more guided missile destroyers and the transfer of six more frigates to the Navy Reserve. These changes allow for a reduction of 6,200 military end strength. The Navy will continue to support 14 deployable carriers as the USS CORAL SEA will be retired when the USS ABRAHAM LINCOLN enters the fleet in FY 1990.

Most planned improvements in logistical support programs were deferred and increases in the backlog of depot maintenance will occur. The level of base operating support services will likewise decrease. Improvements in the foreign currency exchange rate since submission of the FY 1990/FY 1991 Biennial Budget and anticipation of continuation of current exchange rates in FY 1990 and FY 1991 allows a reduction in both years.

We have continued to protect readiness as much as possible within fiscal constraints. Accordingly, ship optempo and flying hour estimates for the remaining forces in both years remain in line with the Department's readiness goals. The budget continues to provide adequate funding for medical programs. The composition of the Navy's Amended FY 1990/FY 1991 budget request for Operation and Maintenance is displayed in Chart 1.

CHART 1
APPROPRIATION SUMMARY
(IN MILLIONS OF DOLLARS)

APPN	FY 1988 ACTUAL	AMENDED FY 1989 ESTIMATE	AMENDED FY 1990 REQUEST	89/90 CHANGE	AMENDED FY 1991 REQUEST	90/91 CHANGE
O&M,N	24,934.4	25,212.7	26,191.8	979.1	27,287.8	1,096.0
O&M,NR	924.4	978.3	980.0	1.7	1,017.0	37.0
	25,858.8	26,191.0	27,171.8	980.8	28,304.8	1,133.0

The Operation and Maintenance appropriations finance the day-to-day operating costs of naval forces in the United States and around the world, and support operations which have the most direct and immediate impact on the current readiness of the Navy.

OPERATION AND MAINTENANCE, NAVY

The FY 1990 request of $26,191.7 million and the FY 1991 request of $27,287.8 million will support Navy operating forces including operation and maintenance of ships, aircraft (including Marine Corps aircraft), weapons and support equipment, as well as the total spectrum of ongoing activity within the Navy support establishment.

A comparison of the Amended FY 1990/FY 1991 biennial budget and the original President's Budget is shown in Chart 2.

CHART 2
OPERATION AND MAINTENANCE, NAVY
(IN MILLIONS OF DOLLARS)

	FY 1990 PRES. BUDGET	DELTA	FY 1990 AMENDED REQUEST	FY 1991 PRES. BUDGET	DELTA	FY 1991 AMENDED REQUEST
STRATEGIC FORCES	1,726.6	-22.6	1,704.0	1,851.6	-3.0	1,848.6
GENERAL PURPOSE FORCES	11,622.2	-194.0	11,428.1	11,914.9	-260.6	11,654.3
INTELL/COMM	1,165.3	-6.2	1,159.1	1,279.0	-5.2	1,273.9
AIRLIFT/SEALIFT	458.1	-25.5	432.6	478.6	-25.7	452.9
CENT. SUPPLY & MAINTENANCE	6,654.2	-84.0	6,570.2	7,003.7	-85.4	6,918.2
TRNG/EDUC AND PERS ACTIVITIES	3,881.8	35.5	3,917.3	4,108.5	43.0	4,151.5
ADMINISTRATION	882.0	-1.8	880.2	888.7	-1.3	887.3
OTHER NATIONS	6.4	.0	6.4	6.9	.0	6.9
SPECIAL OPERATIONS	93.6	.0	93.6	94.2	.0	94.2
TOTAL	26,490.3	-298.6	26,191.7	27,626.0	-338.2	27,287.8

The specific adjustments by budget activity are as follows:

Strategic Forces. The Strategic Forces budget activity provides funds for the Navy's Fleet Ballistic Missile (FBM) Force, including the operating costs of the ballistic missile nuclear submarines, their maintenance and base operations support, weapon systems overhaul, repair and maintenance and fleet support.

As a result of the budget amendment, FY 1990/1991 reflects a reduction of $22.6 million and $3.0 million respectively due to an across the board reduction in base operations support and a reduction in Strategic Weapon System support. All other program changes identified in the original President's Budget remain funded.

General Purpose Forces. The Navy's mission in General Purpose Forces is to provide combat ready fleet forces capable of conducting strike operations and to ensure control of the sea and air in the event of war as well as maintaining a network of shore installations and commands.

As a result of the budget agreement, FY 1990/1991 reflects a reduction of $194.0 million and $260.6 million respectively, and includes force level reductions consisting of ship and aircraft decommissionings, transfer of ships and aircraft to the Reserves, an across the board reduction in base operations support, revised fleet support requirements and revised foreign currency requirements. The specific adjustments are as follows:

	FY 1990	FY 1991
Base Operations Support	-51.8	-40.8
Foreign Currency Requirements	-23.3	-21.3
Fleet Support Requirements		-8.1
Force Level Reductions	-118.9	-190.4
TOTAL	-194.0	-260.6

Intelligence and Communications. The programs in this budget activity provide for collection, analysis and dissemination of intelligence, meteorological and oceanographic data and communications support for the naval community.

As a result of the budget adjustment, FY 1990/1991 reflects a reduction of $6.2 million and $5.2 million respectively, due to an across the board reduction in base operation support and revised foreign currency requirements. All other program changes identified in the original President's Budget remain funded.

Airlift and Sealift. The Strategic Sealift Program is designed to ensure that strategic sealift ships, cargo offload systems and theater logistic systems provide a smooth flow of materials to support combat operations worldwide.

FY 1990/1991 reflects a reduction of $25.5 million and $25.7 million respectively, primarily due to a funding transfer for the fuel onboard the tankers to the Defense Logistics Agency and Management improvements.

Central Supply and Maintenance Activities. The programs in this budget activity provide supply, depot maintenance, technical, and other logistic and acquisition management support to the operating forces.

As a result of the budget amendment, FY 1990/1991 reflects a reduction of $84.0 million and $85.4 million respectively, primarily due to reduced depot maintenance, logistics, engineering support and revised foreign currency requirements. Specific adjustments are as follows:

	FY 1990	FY 1991
Engineering Support Services	-25.0	-26.0
Logistics Support Services	-15.0	-15.0
Force Level Reductions	-11.7	-11.7
Depot Maintenance Reductions	-36.3	-36.0
Foreign Currency	-3.2	-3.8
Classified Programs	7.2	7.1
	-84.0	-85.4

Training, Medical and Other General Personnel Activities. The programs in this budget activity provide training and education, health care and related support to Naval personnel.

FY 1990/1991 reflects a net increase of $35.5 million and $43.0 million respectively, primarily for in-house direct care Medical Treatment Facilities (MTF's) as identified by the Navy's Blue Ribbon Panel. These improvements are expected to decrease workload from the more expensive CHAMPUS program. The increase is slightly offset by reduced foreign currency requirements. All other program changes identified in the original President's Budget remain funded.

Administration and Associated Activities. The programs in this budget activity include funding for staff offices of the Secretary of the Navy and the Chief of Naval Operations and provides service-wide support in the financial, legal and personnel areas.

As a result of the budget amendment, FY 1990/1991 reflects a reduction of $1.8 million and $1.3 million respectively, primarily related to an across the board reduction in base operations support and revised foreign currency requirements. All other program changes identified in the original President's Budget remain funded.

Support to Other Nations. This budget activity provides funding for the Latin American Cooperation Program, emergency medical travel for certain Navy personnel and their families, the Technology Transfer Program, and the unified commanders' cooperative programs and exercises with friendly nations. The budget agreement did not impact funding for Support to Other Nations.

Special Operations Forces. The Special Operations budget activity provides funding for the Navy's Special Operations Forces (SOF). This program includes operation of seven SEAL Teams, two Swimmer Delivery Vehicle (SDV) Teams, two Special Boat Squadrons, two Special Warfare Groups, Naval Special Warfare Command, Naval Special Warfare Center, and the Navy's portion of the Joint Special Operations Command. Additionally, this budget activity provides for the maintenance of various specialized equipment and facilities used by Naval Special Operations Forces. The budget agreement did not impact funding for Special Operations Forces.

OPERATION AND MAINTENANCE, NAVY RESERVE

Chart 3 provides summary financial data for the Operation and Maintenance, Navy Reserve appropriation.

CHART 3
OPERATION & MAINTENANCE, NAVY RESERVE
(IN MILLIONS OF DOLLARS)

	FY 1990 PRES. BUDGET	DELTA	FY 1990 AMENDED REQUEST	FY 1991 PRES. BUDGET	DELTA	FY 1991 AMENDED REQUEST
MISSION FORCES	859.2	3.7	862.9	895.9	11.0	906.9
DEPOT MAINTENANCE	118.9	-8.1	110.8	111.7	-8.1	103.6
OTHER SUPPORT	6.3	.0	6.3	6.5	.0	6.5
TOTAL	984.4	-4.4	980.0	1,014.1	2.9	1,017.0

This appropriation consists of three budget activities: Mission Forces, Depot Maintenance, and Other Support. The Amended FY 1990 and FY 1991 budget requests are $980.0 million and $1,017.0 million respectively.

Mission Forces. In FY 1990 and FY 1991, Mission Forces will support the Department's goals for Reserve ship operating tempo of 21 days per quarter and Naval Air Reserve PMR of 87 percent. Also included is funding for intermediate and depot level maintenance and modernization of Naval Reserve ships and equipment, operation of Special Combat and Special Operations Forces and operational support to Naval Reserve Force ships.

As a result of the budget amendment, FY 1990/1991 reflects a net increase of $3.7 million and $11.0 million respectively, including the transfer of additional ships to the Reserves, a reduction in the size of Reserve P-3 squadrons, and an across the board reduction in base operation support. The specific adjustments are as follows:

	FY 1990	FY 1991
Base Operations Support	-3.7	-3.0
Force Level Changes	7.4	14.0
TOTAL	3.7	11.0

Depot Maintenance. The Depot Maintenance budget activity provides for the Reserve aircraft rework program. As a result of the budget agreement, FY 1990/1991 reflects a reduction of $8.1 million in both years due to force level changes.

Other Support. No impact on this budget activity.

I appreciate this opportunity to describe the Department's Amended Operation and Maintenance budget request. We seek your continued support.

Mr. HUTTO. Thank you.
General Finan.

STATEMENT OF BRIG. GEN. JOHN L. FINAN, DIRECTOR OF BUDGET OPERATIONS, DEPARTMENT OF THE AIR FORCE

General FINAN. Mr. Chairman, it is a pleasure to be here testifying before you again.

As we indicated in our testimony on the original President's budget for 1990 and 1991, the Air Force was attempting to look at a 2-year recovery from what we considered to be a bad year in fiscal year 1988. In the first year of that recovery, in fiscal year 1989, we had fixed some problem areas in flying hours, civilian pay, medical, and depot maintenance. Then, in fiscal year 1990, we had tried to recover in the logistics support and the base operating support and real property maintenance areas.

With the revised budget now before you, we have continued to protect depot maintenance and our flying hours OPTEMPO. However, we have had to go ahead and bring down the areas in base operating support and real property maintenance to the extent of about $200 million in 1990 and about $239 million in 1991.

We have had to reduce our civilian personnel utilization rate, bring down the workyears a little bit, from about 98 percent to 96 percent utilization rate to save about $116 million.

We, too, have been impacted by foreign currency fluctuation, the more favorable rates on the dollar, and that has enabled us to take about $76 million in 1990 and about $79 million in 1991 out of our previously submitted budget.

Finally, we had a criteria change on expense investment equipment, whereas we have now transferred about $47 million in 1990 from the O&M account to the Other Procurement account.

So, in summary, the Air Force O&M account has come down about $453 million in fiscal year 1990 and about $325 million in 1991. The bulk of that reduction comes in the base operating support and real property maintenance area while we have protected logistics and flying hours OPTEMPO.

PREPARED STATEMENT OF GEN. JOHN L. FINAN

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE

I am pleased to appear before this Committee to discuss the amended Operation and Maintenance (O&M) Air Force budget for FY 1990/1991 in support of the Bush administration budget released April 25. Our top priorities remain to recruit, train, motivate, and retain quality people and to maintain a quality force.

The Operation and Maintenance appropriation isn't glamorous or high profile, but it is the heart of Air Force readiness since it pays for the daily operation of our bases and for the flying hour programs throughout the world.

Our primary concern is to protect the readiness of our force. Force structure and logistics support programs such as depot maintenance are not reduced significantly. The Air Force flying hour program, the key to the readiness of our strategic, tactical, and airlift forces, maintained hours per crew per month at the FY 1989 congressionally enacted level.

The following table identifies the adjustments made to the Air Force O&M accounts in the FY 1990/1991 amended budget request:

	FY 1990		FY 1991	
($ in Millions)	January Budget	Change	January Budget	Change
O&M, Air Force (Active)	23,265.2	-453.0	23,869.6	-324.5
O&M Air Force Reserve	1,007.4	-2.8	1,043.1	-1.8
O&M, Air National Guard	2,055.8	-14.6	2,184.9	-24.2
Total Air Force	26,328.4	-470.4	27,097.6	-350.5

For the remainder of my statement, I will focus my comments on the O&M, Air Force (Active) request, since the Air Force Reserve and Air National Guard budgets are reviewed separately by this Committee.

The amended FY 1990/1991 budget request reduces the O&M, Air Force (Active) budget authority for FY 1990 to $22,812 million which represents a $453 million reduction from the January request of $23,265 million. The budget authority request for FY 1991 is now $23,545 million or $325 million below the estimate in January. These adjustments are in response to the bipartisan agreement between the President and the Congress to further reduce the deficit.

Reductions in FY 1990 are predominately in the readiness support areas such as base operating support, real property maintenance activities, and civilian pay. The FY 1991 request simply maintains the FY 1990 level of operation and support activities except for a small increase in depot maintenance funding.

As I stated earlier, adjustments made to the Air Force Operation and Maintenance account reflect the Air Force's priority to maintain the readiness of our forces. Your support of these adjustments is essential to enable the Air Force to operate and maintain a modern, well-trained, combat-ready force. This concludes my remarks on the FY 1990/1991 Operation and Maintenance Air Force amended budget request. Mr. Chairman, I will be happy to answer any questions you may have.

Mr. HUTTO. I notice, General, in your reductions for 1990 you said that the reductions are predominantly in the readiness support areas, such as base operating support and real property maintenance activity; and you also had in your statement civilian pay, which you didn't mention a minute ago.

General FINAN. Yes, sir. That is where I addressed the utilization rate for civilian personnel, and what we are doing is, we planned a utilization rate of about 98 percent of authorized strength in the original budget.

Mr. HUTTO. OK. So you just won't be paying as many people?

General FINAN. Yes, sir. What we would do is, as people retire or move on to other jobs, we just wouldn't hire as fast, and normal lapse rate would hopefully accommodate that reduction.

Mr. HUTTO. All right.

General Carson.

STATEMENT OF LT. GEN. W.G. CARSON, JR., DEPUTY CHIEF OF STAFF, INSTALLATIONS AND LOGISTICS, U.S. MARINE CORPS

General CARSON. Mr. Chairman, members of the committee, it is a privilege to update you from our previous testimony over here on 7 March.

Since that time in O&M, we, too, have had an adjustment due to currency fluctuation, a reduction of $17 million in 1990 and $17.7 million in 1991. We also took a 2.2 percent mark in base operations, which was a further reduction of $11.8 million in 1990 and $9.3 million in 1991. These adjustments will be made on the base side through base maintenance type activities, civilian workyears. Since my last testimony, there has been no further impact on the operating forces.

The summary of update—when I was here before, I testified that fiscal year 1990 over 1989 was a 9 percent reduction in O&M; that reduction is now 10 percent in 1990 over 1989.

The rest of my original statement submitted in March remains valid.

Mr. HUTTO. OK. Thank you, General.

We do not have our ranking minority member here, but to give his statement I would like to call on Mr. Hefley to do so.

Mr. HEFLEY. Thank you, Mr. Chairman.

For Mr. Kasich, who is unable to be here at this time, let me share his statement with you.

PREPARED STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE FROM OHIO, RANKING MINORITY MEMBER, READINESS SUBCOMMITTEE

When Secretary Cheney testified before the House Armed Services Committee last week, he stated that preserving readiness was one of his top priorities in revising the DOD budget. Today we will see if he succeeded in his objective.

One of the things that the members of the subcommittee should keep in mind is that in terms of budget authority, O&M did not fare that badly in the latest round of budget cutting. As the chairman said, procurement took a much larger reduction.

However, in terms of estimated outlays, the actual amount of checks that will be written in fiscal year 1990, O&M took the largest reduction, $1.2 billion, of all the DOD accounts. From that standpoint, we cannot say that readiness was unhurt by the budget cuts. Today we want to see if those cuts were reasonable ones.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Hefley.

Mr. Flinn, could you review the current situation in 1989? We are starting to see reprogrammings, and I wonder if the savings that had been expected from fuel and foreign currency changes are materializing.

After your response, I would like each of the services to briefly highlight what they see as potential problems remaining in the current fiscal year of 1989.

Mr. **Flinn**. The fuel savings that we initially reflected in the budget relative to 1989 has declined, but we still see an asset in fuel power. Reprogrammings reflecting those assets will be forwarded.

The foreign currency shortfall has also decreased. However, we still have an unfunded requirement. We are reviewing the situation to see if it will be necessary to request a reprogramming. I still believe that we will be coming up with a reprogramming somewhere in the order of $200/$300 million, I believe, in 1989 relative to foreign currency. But we will have to provide an update on that number. Those reprogrammings will be coming forward.

Mr. **Hutto**. All right.

General Robles, can you describe your current situation in 1989.

General **Robles**. Yes, sir.

A couple of things that impact on the Army: As you know, the Army has the most difficult challenge with respect to foreign currency. We have a lot of foreign currency requirements. Currently we are estimating that we are going to be short. The shortfall in the foreign currency account in the Army is about $260 million for the year. So Mr. Flinn's comment about reprogramming will certainly help us along that way. We will still have to deal with part of that problem ourselves internally.

In addition, I just want to make sure that I put things in perspective. Everybody talks about 1988 being a bad year. For the Army, we lost about 8 percent in buying power as we went from 1987 to 1988. Hoping that 1989 would be better, 1989 turned out to be a carbon copy of 1988, so we faced another 6 percent loss in buying power compared to 1987 when you adjust the funding levels for transfers, one-time costs, inflationary effects, and foreign currency effects.

So I would say that we are significantly down from our 1987 level buying power, and that particularly shows up in the Army in a couple of areas. One area is in our transportation account, our central transportation and central supply account. We are currently envisioning a sizable shortfall of almost $200 million in that account. We are looking right now to reprioritize that account and see exactly how much we will have to come forward with to request a reprogramming.

We also took on a new mission in 1989, that being the implementation of the INF treaty. That is a mission without resources that we have to also absorb. We are looking at coming up with a way to pay that bill.

Mr. **Hutto**. Could you elaborate a little bit on the bills that you have related to INF?

General **Robles**. Yes, sir.

In the process of the verification, the on-site inspections, and the destruction of the warheads, you have to start preparing in 1989 to do that. We have some requirements, primarily in our Army Materiel Command, to set up some special facilities to do that destruction process as well as be involved in the verification process. That was not programmed when we submitted the original 1989 budget. So the current estimate is that we are going to be short about $24/25 million to do that mission in our Army Materiel Command.

We are also looking at our Veterans' Educational Assistance Program (VEAP) bill. Our program of educational assistance for our soldiers who have left the Army is coming in higher than we expected from the Veterans' Administration.

So I think to summarize, we are having a very interesting year in 1989, and you can expect to see some reprogramming from the Army.

Mr. HUTTO. Good luck.

Admiral Walsh.

Admiral WALSH. Sir, like the Army, we are down in fiscal year 1989 over fiscal year 1988. From fiscal year 1987 to fiscal year 1988, we came down 10 percent, and from fiscal year 1988 to fiscal year 1989 we came down another 4 percent.

We have currently three proposed reprogrammings. One was for $60 million, as a result of congressional language directing us to transfer $60 million to the Coast Guard. That $60 million came out of base operating support. The reprogramming was disapproved by the House Appropriations Committee on two technical issues. That is, currently, I believe, under discussion between the Department of Defense and the House Appropriations Committee. At the moment, we are in limbo as to that $60 million reprogramming in base operating support for the remainder of this fiscal year, which will have a very significant impact if it doesn't come through.

There are two other reprogrammings which were reflected in the fiscal year 1989 column of the fiscal year 1990 budget. One was a $243 million programmatic reprogramming that was, as I say, included in the 1989 column of the 1990 budget, which is currently in process on the Hill here; and, third, there is a reprogramming for roughly $100 million for the civilian pay raise, including both the direct O&M and the industrial fund pay raise.

Without that roughly $400 million, it is unclear how we are going to complete the fiscal year execution, and we are struggling with that right now at mid-year review.

Mr. HUTTO. OK.

General Finan.

General FINAN. Yes, sir.

The Air Force is in the same boat as the Army and Navy in that 1989 was not a very good year for O&M, and we too have some reprogramming.

Mr. HUTTO. I'm glad to know that you're in a boat. I'm sure the admiral appreciates that.

Admiral WALSH. We take care of them.

General FINAN. The Navy helps out.

We've got three areas of concern, and they are pretty much along the same lines. One, the foreign currency: We've got a requirement of about $92 million that we are expecting some help on. We've got a bill of $103 million for CHAMPUS, and this is a result of added workload on Air Force hospitals because of a change in the way we calculate who pays CHAMPUS bills. We are now looking at that under a catchment area concept.

Mr. **Hutto**. Do you know the amount of that CHAMPUS reprogramming?

General **Finan**. Yes, sir. The bill is about $103 million, and we are going to have to have a reprogramming to solve all or part of it.

The third item is also additional pay raise money which will be coming over as a reprogramming to provide additional civilian pay raise.

So the total of those are close to $250 million, and we certainly need them if we are going to survive the fiscal year, sir.

Mr. **Hutto**. OK. Thank you.

General Carson.

General **Carson**. Yes, sir. Our 1989 over 1988 was down 2 percent. Right now, 1989 is looking good. There are no reprogramming actions pending, and, per my review as recently as the end of last week, we do not anticipate any reprogramming.

Mr. **Hutto**. Very good. Thank you, sir.

Mr. Ray.

Mr. **Ray**. Thank you, Mr. Chairman.

Mr. Flinn and gentlemen, it is good to have you here today.

In February, Mr. Derek Vander Schaaf, the Deputy Inspector General, came over at our request and reported on a study that Secretary Carlucci had directed him to do in November and to complete it by February identifying overlaying areas of bureaucracy, so to speak, that might be able to be trimmed out of the budget. He concentrated primarily on military bases out of the continental United States. I think the figure that he came back with, not having studied anything in the continental United States, was about $8 billion that could be trimmed from various layers of bureaucracy that ought to be phased out. Are any of you familiar with that report? Have you looked at it or thought about looking into any areas where operations can be trimmed away that might have grown a little too much in the last 10 years?

Mr. **Flinn**. No, sir, I'm not familiar with that particular study.

Mr. **Ray**. I see.

There has been no indication anywhere that we needed to trim layers of operating bureaucracy?

General **Robles**. Sir, as you know, Mr. Vander Schaaf did do a study, and he proposed some reductions in some of our joint commands. The figure was about 7,500 spaces Defense-wide. The Army did, in fact, receive a share of those reductions in the Army. We lost about 500 spaces in fiscal year 1990 and about 1,115 spaces in fiscal years 1989–1991. These spaces were not "lost" to the Army, but were reinvested in combat shortfalls.

Mr. **Ray**. As a result of that report?

General **Robles**. As a result of that study by Mr. Vander Schaaf.

Mr. **Ray**. That was outside the continental United States?

General **Robles**. One hundred and fourteen were Army-occupied Joint spaces. Most of the remaining 1,001 spaces were in overseas commands. Two hundred and forty-three were from CONUS-based organizations. They were in the unified and specified commands in some cases and the Army component commands in other cases.

Mr. **Ray**. Will the Army be taking a look at such cuts in the continental United States also?

General **Robles**. Sir, the Army and other folks are always looking at ways to trim the overhead account. There are several initiatives going on. In fact, during this last budget amendment we are looking at some management initiatives to, in fact, continue to cut overhead both in the United States and overseas.

Mr. **Ray**. General Finan, do you have any comments?

General **Finan**. Yes, sir.

In the Air Force, we looked at the IG recommendations and had about 1,100 spaces affected; 747 spaces were actually reduced from the 1990/91 end strength in the Air Force budget. I don't have a split on them from overseas and CONUS, but we did go ahead and make some reductions.

Mr. **Ray**. I see.

We do know that in the Air Force there has been some heavy growth in 8 or 10 years in certain of the central commands. Is that going to be looked at, do you think, in the continental United States?

General **Finan**. I don't have the particulars on the break-out of the reduction. I would surmise that they have probably already been looked at when we made our reductions, sir.

Mr. **Ray**. I'm not picking on any particular command, because I can talk about all of them, but the Logistics Command has 88,000 employees with 30,000 in its central command. That's an example of what I think Mr. Vander Schaaf is talking about.

Yes, sir?

Mr. **Flinn**. Sir, I realize now you are referring to Mr. Vander Schaaf's unified and specified command management review study. The budget reflects an approximate 3,000 personnel reduction for unified and specified headquarters commands, both military and civilian strengths.

In applying the reduction, the services retained the strength and were allowed to reapply it to combat and medical support units. The unified and specified command headquarters activities are down by 3,000 spaces in the 1990 budget submission.

Mr. **Ray**. I see.

Admiral?

Admiral **Walsh**. Yes, sir. We are about the same. I don't have the exact figures. I don't believe that our headquarters were as large as in the Army and the Air Force. We took a somewhat smaller reduction, and those spaces were reassigned to fleet units.

Mr. **Ray**. General Carson.

General **Carson**. We maintain structure. We did transfer headquarters structure billets to field commands. On the civilian side, we did have a slight—I forget the exact number—very slight reduction in civilian billets, but that was through CA actions.

Mr. **Ray**. Yes, sir.

I have a couple of questions for Admiral Walsh.

The initial budget request contained a $28 million increase to convert Navy Sea Systems——

Admiral **Walsh**. Yes, sir.

Mr. RAY. Yes, sir. Contractor support service activities, in-house, instead of continuing their historical reliance on contractors. Has this increase been sustained in the revised budget, do you know?

Admiral WALSH. Yes, sir. In terms of dollars, it is a zero sum change. What we are doing is bringing personnel into the Navy that were paid by contract from our various appropriations. So in in-house personnel, they will be paid from O&MN and O&MMC appropriations. It is a functional transfer. In terms of total dollars it is a zero sum transfer.

Mr. RAY. I see.

Admiral WALSH. As a result of the "Ill Wind" investigation and others, we became concerned about the acquisition process. The initiative is to bring in-house those people involved in sensitive acquisition functions.

Mr. RAY. I see.

One other question. In an April 1989 letter written to two of our colleagues here in the Congress, Assistant Secretary of the Navy Everett Pyatt directed at that time that repair work on the minesweeper Excel, which is home ported in San Francisco, be bid coastwide in compliance with the AuCoin amendment requiring coastwide bidding of all west coast reserve ships, including minesweepers. But we are informed that the operations side of the Navy has not carried out Mr. Pyatt's directive. Would you have any knowledge of this or any knowledge of why the Navy is not abiding by this new directive since noncompliance also kind of flies in the face of the report language?

Admiral WALSH. Yes, sir. The reason for the disconnect is the fact that we have three minesweepers that are fully deployed in the Persian Gulf. All are Pacific Fleet units, which are being manned by rotating crews from all west coast units. The operating requirements on the remaining PACFLT MSOs is such that to take them out of their homeport to do the maintenance would further take the people away from home to a very much larger degree than was originally planned when we submitted the budget.

I think when the AuCoin amendment was put in, at that point we did not realize that the remaining reserve minesweepers in the gulf would be west coast MSOs.

Mr. RAY. Will you be writing us to ask for a change in that status?

Admiral WALSH. Yes, sir. I believe that is part of the discussion. I can get the details for you.

Mr. RAY. OK. If you would communicate with us in that respect.

[The following information was received for the record:]

It was originally thought that the returning units would be spread between both fleets, thus reducing MSO crew OPTEMPO, and eliminating the need for homeport bidding. With this assumption in mind and as discussed in his letter of 9 April 1989, Mr. Pyatt rescinded the policy to homeport bid Pacific Fleet MSO maintenance.

However, subsequent to Mr. Pyatt's letter, the decision was to return only Atlantic Fleets units, and keep the three deployed Pacific Fleet MSOs on station in the Persian Gulf. The net result is that Pacific Fleet MSO crew OPTEMPO has not been reduced and the need to homeport bid ship maintenance still remains.

With this in mind and as discussed in his 9 May 1989 letter to Congressmen Anderson and Rohrabacher, Mr. Pyatt reinstated the requirement for homeport bidding of Pacific Fleet MSO overhaul, repair or maintenance, commencing with the U.S.S. *Excel* DSRA.

Once the remaining MSOs return from the Persian Gulf, ship repair and maintenance will once again be governed by a coast wide bid policy as directed by the AuCoin amendment.

Mr. HUTTO. Mr. Ray, the timer lights are not working, and I'm sorry I have to gavel you here. If you have more questions, we will be back to you later.

Mr. RAY. The other one just deals with Pensacola, but it's not important.

Mr. HUTTO. You don't need to ask that one.

Let's see. Who is next here?

Mr. Bilbray.

Mr. BILBRAY. First is the question for the Air Force representative. During the last year, you cut back some on your flying operations. A very parochial question: Red Flag was cut from five to four. Are you intending to cut that again this year from five to four, or are you going to have five Red Flag operations?

General FINAN. As far as I know, we are maintaining the flying hour OPTEMPO at the 1987 level and at the 1989 enacted level, and I would envision that we will be flying the full Red Flag Program, sir.

Mr. BILBRAY. All right.

On the Army, I wanted to know—I notice the only increase is advertising. Is it because of your recruitment problems, or is the Army increasing their advertising to try to attract more recruits?

General ROBLES. Yes, sir. It is, in fact, tied to that. The increase that is in the amended budget is to get us back to the 1987 level of advertising. There have been some rather sharp decreases, about a 28-percent decrease, in the advertising dollars available over the last couple of years. We just got a study that reinforced the fact that there is a direct correlation between advertising and the quality and the numbers of recruits we get in the Army because of the market we are going after. So, our request for an increase is directly related to attempting to continue to recruit quality soldiers, which is the bedrock of the Army.

Mr. BILBRAY. Maybe that relates back to the question that I had asked the last time I was at one of these hearings, the fact that one of the biggest things I heard cried out for from senior members of all your services is to not cut back on the educational benefits that are being offered to recruits. In your budgets as you sit right now, how does it stand on what you can offer to young recruits to come into all your services? I don't know who wants to answer first. But do you have to cut back on that, or how does that look for the next year?

We can start with anybody. Army?

General ROBLES. Sir, as a general statement, we protected those programs, because we understand the need to continue to train and maintain our quality of soldiers. Education programs have a direct relationship to retaining and attracting quality soldiers. So, we did not make any major corrections to our educational program in the Army.

Admiral WALSH. Sir, the Navy has not made any adjustments to education programs, and we are tracking right now at essentially the same as the 1988 level.

Mr. BILBRAY. So those are not being cut.

Is that true of the Air Force?

General **Finan**. Yes, sir. We are protecting our programs also.

Mr. **Bilbray**. Marines?

General **Carson**. Ours remains constant.

Mr. **Bilbray**. Again, back to the Air Force, not just Red Flag but on the overall flying budget, this is something that concerns me, the Air Force's readiness. What has happened to that overall?

General **Finan**. Yes, sir. We have maintained the 1989 enacted level. There is a drop in actual number of flying hours, but that is force structure related. But the overall hours per crew per month are at the 1989 enacted level, which enables us to maintain the OPTEMPO we feel is minimally acceptable.

Mr. **Bilbray**. OK. Thank you.

Mr. **Hutto**. Thank you, Mr. Bilbray.

Mr. Hefley.

Mr. **Hefley**. Thank you, Mr. Chairman.

Readiness, in the broadest sense, means to me ready to go to war. I guess that is what most of us think in terms of. You have your flying hours and your steaming hours and so forth, so that you train to go to war.

In the budget cuts, I have some concerns about those cuts in terms of readiness to go to war. We are taking roughly 8,000 troops from the Army, General Robles, and, of those 8,000, about half of them come out of the United States. I notice that 169 of those come from Fort Sill, Oklahoma, and 3,312 of them from Fort Carson, Colorado. These are fighting forces; these are people who are prepared to go to war. We did this rather than take from the administrative staffs, the thousands of people who are connected with the military, with the Army here in the Washington, D.C. area, for instance. We take them from the actual fighting force structure. What does that do to our readiness?

General **Robles**. Sir, a couple of notions about that question. First of all, with respect to the administrative staff, I am sure you are aware that OSD is continuing to review whether, in fact, we should continue to cut the headquarters accounts of all the services. In recent years, we have, in fact, cut the headquarters account. There have been a series of reductions. The so-called Nichols-Goldwater Defense Reorganization Act made some reductions. There had been some acquisition reductions. There have been some reductions against the staffs of the headquarters of some substantial proportion. So if you looked at the personnel numbers from just as early as the 1984 time frame to today, you would see some significant reductions.

Now to shift to the question about cutting active force structure. That was probably the most agonizing decision we did have to make in the 1990 adjustment, particularly, what is the right balance, forward deployed versus reinforcing divisions from CONUS. As you know, the issue at hand was that we had to cut back force structure based on the INF treaty by about 7,900 spaces—7,929, to be exact.

In the aggregate, I think we came up with a good proposition. The proposition was, it would be wrong at this time to cut our forward deployed forces because we are, as you know, entering into the conventional force in Europe negotiations. So we need to maintain our forward deployed posture and our deterrence of war fighting capability in the forward deployed areas.

We also had to look at what we would do to shore up some of the design corrections we had to make in our combat support/combat service support structure. This has been an interest of the Congress and of the Army for several years, and we made some of those adjustments.

We looked at what specific unit or units we should cut. We really had to look at the reinforcing units of the continental United States. When you looked at which ones had contingency missions, heavy versus light—I'll just tell you, a light brigade gives us about 2,200 spaces, where a heavy brigade gives us about 3,500 spaces.

We ended up finally, as you know, taking a brigade from the Fourth Infantry Division. Based on the fact that they were the only full-up heavy division in the United States reinforcing base, not tied to a contingency mission, and not forward deployed. It was a tough choice that no one wanted to make.

Mr. **Hefley**. For those that you leave in Europe, a half of the cuts that you leave in Europe, 1,300 of them will go to the Combat Maneuver Training Center in Germany, I understand, and about 1,600 of them will fill a variety of slots in Europe which have not been filled since 1980.

That raises some questions in my mind. If I had positions in my office that hadn't been filled since 1980, I would assume that I don't need those positions very much; maybe I don't need to fill those positions. Yet, rather than pull all these 8,000 troops out of Europe, we place 1,600 of them in positions, evidently, that didn't need to be filled anyway, because we have gotten by without them since 1980.

General **Robles**. Sir, I would say that the 1,600 spaces that are going to be used to fill our units in our forward deployed forces are a result of two things: first of all, some undermanning in our combat units. As you know, the Army has gone through some Army of Excellence redesign in the last 4 or 5 years, and I think the assessment is that we need to make some corrections to that initial plan. That is what some of these spaces are for. The others result from the fact that the CINC in Europe has come on line several times to say that we need to raise the level of fill for his combat service support units. We are doing just that, fixing the level of fill in our combat service support units and fixing some of those shortfalls in combat units, which we think will enhance readiness in our forward deployed forces and in the Army in general.

The other question is, how about the spaces for the Combat Maneuver Training Center at Hohenfels? I think that I mentioned last time I was before your subcommittee just how strongly I feel about the combat training centers and how important they are. I think that it would be wrong for us not to resource our forward deployed Combat Maneuver Training Center. These spaces will make it a full up complement to our overall training strategy, much like we have at the National Training Center. That is great training, probably the best training that we do in the United States Army. So I just think that those were spaces that were well invested.

Mr. **Hefley**. Thank you, General.

Thank you, Mr. Chairman.

Mr. HUTTO. Thank you, Mr. Hefley.

The gentleman from Texas.

Mr. ORTIZ. Thank you, Mr. Chairman.

Mr. Flinn, I notice that the Army has taken the largest budget cuts in the operation and maintenance accounts in both fiscal years. Could you give me any reason that the Army is better equipped to take the cuts and therefore targeted for a larger portion of the cuts again?

Mr. FLINN. I believe you are referring to the across-the-board 2-percent reduction made in each of the services' base operations program.

The Army has the largest share of the base operations support in the O&M appropriations. They have taken an equitable distribution of the cut; it is just that the Army's program is so much larger; that is why you see a larger reduction; it is not an unfair distribution to the Army.

Mr. ORTIZ. Because on page 4 of your testimony you mention that a major area of program adjustments occur in the defense management support category and list several areas where these reductions will predominantly occur. You mention contract efforts, including studies of support services, ADP, and office modernization efforts. I am really interested in the impact on contract efforts.

Just a few days ago, we had some testimony that stated that you will spend about $300 million studying A-76. That is $300 million. Do you plan to reduce A-76 studies to reduce the budget, or how are you going to do that?

Mr. FLINN. No, sir, we are not planning on reducing A-76 studies. If there is a benefit to convert to commercial versus in-house, we will continue to go that way. We are looking at all management areas, management overhead areas, and part of that includes contract management, and if there are efficiencies there we will make those reductions in those areas also.

Mr. ORTIZ. We talk about readiness, and I agree with the gentleman from Colorado, Mr. Hefley, that we have to be ready to go to war. But when we contract out, this bothers me. We spend $300 million on A-76 studies to see how we can do the job better by maybe contracting out; but we are not spending any money at all, not one single penny, on those jobs that are out, not in-house but out, to bring them back in-house. Are we planning on spending any money on contracts that are out to bring them in-house, like we spend money on A-76 studies?

Mr. FLINN. Sir, we are reviewing these initiatives periodically over time. If it is more cost-effective to bring a function that we have contracted out in-house, that will happen.

Mr. ORTIZ. But we are not spending any money doing that. We are spending money only on A-76 studies.

Mr. FLINN. Sir, I am not aware of the $300 million that you are referring to in examining A-76 initiatives. We do an economic analysis to determine whether a particular function is more cost-effective to go contract versus continuing to do it in-house, and if it is at least 10 percent cost-effective, as a minimum, we will go that route.

Now there are certain parameters, I am sure, as you know, that we follow. If it is military essential, we do not contract out. We are not wasting resources by contracting out.

Mr. **Ortiz**. I hope I can make my point. I said it the other day. We have a double-barrelled shotgun, but we are firing one barrell, spending $300 million a year just on A-76 studies, studies of jobs that we have in-house that we want to contract out, but we are not doing anything to check those jobs that are out to bring them inhouse. This is my question.

But let me go to another question. What about minority contracting out? How do we stand on that? Are you going to see some reductions on minority contracting out because of the budget reduction that you have to do?

Mr. **Flinn**. I don't expect to see any specific initiatives to reduce minority contracts as a result of the budget reduction, no, sir.

Mr. **Ortiz**. Thank you.

I have another question, if I may, and this concerns me.

Mr. **Hutto**. Well, the green light is still on. Ask it fast.

Mr. **Ortiz**. This might be a little parochial.

Mr. **Hutto**. You are granted that.

Mr. **Ortiz**. Mr. Walsh, my chairman and I are working so hard, as you are well aware, on the surface action group home porting, and I understand that you are going to retire the U.S.S. *Coral Sea,* and you will not retire until the U.S.S. *Abraham Lincoln* comes on board. Am I correct?

Admiral **Walsh**. Yes, sir, that is correct.

Mr. **Ortiz**. I understand that the *Lincoln* is going to the chairman—is it going to your district?

Mr. **Hutto**. No. I wish it were. I don't know where the *Lincoln* is scheduled for.

Mr. **Ortiz**. Well, I hope it goes there so we can get the *Lexington* into Corpus Christi.

Admiral **Walsh**. To the best of my knowledge, sir, they are reviewing all of the deployment schedules and everything else, but the retirement of the *Coral Sea* should not, at least in the next couple of years, have any impact at all on the *Lexington.*

Mr. **Ortiz**. So the homeporting as it stands now, you don't see any changes at all?

Admiral **Walsh**. No, sir, I do not. We have no plans at this point to modify the Gulf homeporting plan as a result of the Base Operations Support (BOS) reductions.

Mr. **Ortiz**. I just hope that the *Lincoln* goes to your home port, Mr. Chairman.

Mr. **Hutto**. No, it is not scheduled there, I assure you.

But, Mr. Ortiz, you were suggesting that, with reducing everything else, they should also reduce that $300 million for studying A-76.

Mr. **Ortiz**. I think that would be only fair, Mr. Chairman.

Mr. **Hutto**. It sounds right to me.

Mr. Dornan.

Mr. **Dornan**. Thank you, Mr. Chairman.

I would like to start with the Air Force, but ask each one of our military panelists the same question.

General, is it pretty well believed at the Pentagon that Reserve and Air National Guard pilots, maintenance crews, and, in the case of transports and tankers, aerial tankers, the flying enlisted crews, are equal, if not better, than active-duty crews? Better only because they will have a higher seniority level of years served?

General **Finan**. I believe the Air Force feels they are all equal. We look at it as a total force and treat them that way, I believe, sir.

Mr. **Dornan**. For any mobilization for a crisis situation to stave off a war, they feel that when they are mobilized they are as combat-ready as anybody on active duty.

General **Finan**. Yes, sir, I think we believe that.

Mr. **Dornan**. Is it the same with your Naval Reserve, with which I am not as familiar as I am with the Air Force Reserve and Guard—your Naval Reserve pilots, air crews? I know it is hard to have ships in Kansas. You build a fo'c'sle or a bridge and try and have a drill.

Admiral **Walsh**. Well, in fact, we do have Naval Reserve ships, and we do have some crews from Kansas on them. But let me break it into two pieces.

On the aviation side, the Reserve crews, for what they are training at, are as qualified as their active counterparts. We do not try and maintain, for example, in the Naval Air Reserve, a night carrier qualification just because of the number of hours that would be required to do that and the rate at which that proficiency degrades; it is not cost-effective to do that in the Reserves. If we were to go to mobilization, it would not take a very long time to get those guys night-carrier qualified. They do maintain a day carrier qualification.

With respect to the Naval Reserve ships, there are, again, two pieces of that. There are the ships that are actually in the NRF which are manned by a composite of active Navy, Training and Administration of Reserves (TARS) which are active-duty people paid out of the Reserve Pay Navy appropriation, and selected Reserves. Those ships maintain a war-fighting capability which is pretty good.

Because you cannot operate in the areas that you have to operate—for example, up north of Iceland or wherever, with a Reserve ship; you can't get out and stay that long—they don't have the currency that their active counterparts have, but in a mobilization situation they would be up to speed very rapidly.

Mr. **Dornan**. General Carson, I just passed a former 10-year Member that served valiantly on this committee for a decade, Robin Beard, still an active duty Marine colonel in the Reserve. I just asked him if he knows as much as a Marine as he ever did, and said, "Of course. I'm at my peak." Do you feel the same way about all the Marine reservists, flying and otherwise?

General **Carson**. We have a total force concept, as an example, for major exercises, one very recently in Norway; a Reserve infantry battalion went. The Reserve pilots fly weekends, fly in exercises with the active forces. It gets to the rubber meeting the road. As to try to tell you totally equally, I don't think I am in a position to do that.

Mr. DORNAN. All right. That exercise in Norway was in March. I was hoping to go to that. Everything came off well with that exercise.

I saved our senior service for last, because your people sometimes have to travel a little further afield than a pilot would or a maintenance crewman to really get in some good tank action and fire live ammunition. In general what is the feeling at the Pentagon about your Reservists—tankers, aviators, helicopter pilots—across the board?

General ROBLES. Sir, I think the Army leadership would tell you right up front that we are a total Army. As a matter of fact, in this fiscal year the structure in our Reserve components exceeds the structure in the active component. This will continue, and the gap will narrow as we go down the road.

A great number of our combat support and combat service support units are in the Reserve components. We have made great strides in integrating them into our training, and into our equipment modernization. I will tell you that many of our divisions are rounded out by Reserve component units. They travel all over the world. They go to Europe. They go to the Pacific. They go to South America and Central America. We feel very comfortable that our Reserve component soldiers are, in fact, very highly trained. We expect that they will fight right alongside of us.

Mr. DORNAN. General, I did not know what Admiral Walsh said about night carrier qualification, and it is certainly understandable that you would spend your whole 2 weeks getting qualified and miss the opportunity to fill in a lot of blocks of combat readiness across your personnel chart.

But I did hear one exception to the ability to keep the fighting edge of your combat readiness in the Army, and that was the H64 Apache pilots. A Reservist traveling through a base told me that they have found in some of those Reserve units that have started to get brand new Apaches off the assembly line that they need more than 2 weeks summer camp and weekend drills, that they need, particularly in the checking out phase, a burst of 3 months active duty to get a pilot qualified. Can you elaborate on that at all?

General ROBLES. Sir, I think that is probably very true in the business of the Apache; it is a very complex airframe, and that may be true in some other modernized systems we have. It is a different piece of equipment and requires some intensive training. We accommodate doing just that, spending some additional time both on the active side or actually traveling to the site of the Reserve component, where feasible, to do that training. In the Apache business, we are doing that sort of a centralized approach so we get everybody up quickly and qualified.

But yes, that is very true. It sometimes takes more than the 2 weeks sustainment training. Now you must understand, that 2 weeks is for sustainment training of combat skills and really not geared to bring somebody up to speed from a base of zero on a new piece of equipment. We have other mechanisms. We have new equipment training teams who go to the unit. We have extended periods of skill training at some of our training centers and some of our sites to give them that initial training that makes them adequately qualified.

Mr. **Dornan**. Thank you, General. Thank you, Mr. Chairman.

Mr. **Hutto**. Thank you, Mr. Dornan.

Mr. Lancaster.

Mr. **Lancaster**. Admiral Walsh, it interests me whenever the Navy testifies and says, as you do in your testimony, that the Navy has adequate funding for its medical programs. I, of course, find the Navy medical programs totally unacceptable, and I just wonder what standard you use to justify a statement that that funding is adequate. For you to say that it continues to be adequate when, in my opinion, it is woefully inadequate is a bit interesting. So tell me what you consider adequate and how you justify that statement.

Admiral **Walsh**. Yes, sir. As you know, last year the department conducted a total review of medical programs. The Secretary's blue ribbon panel came up with a series of initiatives which they felt was, one, executable and, two, would improve the quality of Navy medicine and bring more medical workload in-house.

We are monitoring those initiatives very closely. There is what is called a Rapid Implementation Team at Bethesda Naval Hospital which is, in a sense, a pilot project, to see how well and how fast we can get ourselves back in shape.

As a result of the work that is being done at Bethesda, we have made some changes in the program. We found, for example, that one of the problems we had is we did not realize that our civilian personnel officers were not up to speed. The first thing we had to fix was the Consolidated Civilian Personnel Office.

As a result in this amended budget, we have added some $37 million to the fiscal year 1990 column to reflect those things. The experience that we have in fiscal year 1989, as result of the $87 million that was added by Congress in fiscal year 1989, has indicated those things that we feel are executable—i.e., we can get the people on board with the right skills in the right places—and we are continuing these initiatives. We are watching this program very closely. We are proceeding as fast as I think we can without sacrificing the quality that is required.

Mr. **Lancaster**. General Robles, I like that shiny new star. Congratulations.

General **Robles**. Thank you.

Mr. **Lancaster**. Although your testimony doesn't address the reduction of 7,900 personnel, I am sure that you can talk about that a little bit. While these positions are being eradicated, the people are still there. How will you otherwise remove these people? Will normal attrition take care of it, or are you going to have an early out program, or exactly how will that be accomplished?

Since command is so important in the Army, if you would, in answering that question, comment on what you are going to do about people who have recently assumed command who now don't have a job. Can they be absorbed otherwise, or how is this going to affect their careers?

General **Robles**. Sir, on the first part of your question, I would say that you are right, you don't give an edict that the force structure comes out and all the bodies leave. We are already looking at how we can transition into when the structure goes away the people, the faces, go away. I think we are going to attack that in a two-part way. First, it takes about 4 months, on the average, to get a new soldier through training. So, we will start in late fiscal year 1989 to attrit back these accessions into the training base so that by the time they would have completed training they would have gone into some of the structure that went away; they will not be there, in essence. So we are making part of the transition that way.

The other part is, as we start to take down the structure, we will continue to manage the accessions into the Army commensurate with the reduction in structure to have a balance again. That is a very difficult process because you, on the one hand, do not want to underman the current force by having shortages, by not taking enough to cover all the units. We certainly don't want to have a hollow Army and underman our force. By the same token, we don't want to access new soldiers into the Army only to report to a job that has been abolished. So we are working that very carefully almost on each individual level to get the numbers right. We have our personnel chiefs involved, our force structure people involved, and our trainers involved, to make sure that all happens.

The second part of your question about assuming command—I would hate to be in command of a unit that was 1 day active and told it was inactivated the next day. We accommodate that. If the individual recently went into command and then the decision was made to inactivate the unit; and if he had not completed a sufficient amount of command tour to give him the experience that comes with command, then we would certainly make provisions for him to command somewhere else—another unit—and that has happened previously. Unfortunately, we don't make structure decisions based on command billets, but we are not out to penalize a commander. They will get an opportunity to complete at least a minimum level of command to give them that experience that command offers.

Mr. LANCASTER. Mr. Flinn, in your testimony you address the reductions in the JCS exercise programs, and it appears to me that all of these cuts are in the lift area. Would you elaborate on that? How are we going to get these troops to the exercise if the lift capability is drastically reduced?

Mr. FLINN. The exercise reduction is accommodated through a scaling back of the Reforger exercise and taking advantage of the automation models that the JCS has developed which enables them to gain the benefits of training through war gaming models.

Mr. LANCASTER. I'm not sure that answered my question.

Mr. HUTTO. Do you want to repeat your question?

Mr. LANCASTER. It appears to me that all of the cuts are in lift. If that is true, how are you going to get people to the exercises that remain? Is it just that all of that lift cut is because of Reforger getting people to Europe and now you are not going to get them to Europe?

Mr. FLINN. The scale-back of Reforger and a scaling back of other exercises results in a lesser requirement for lift.

Mr. HUTTO. Mr. Martin.

Mr. MARTIN. Thank you very much, Mr. Chairman.

The question relates mostly to the Department of the Navy. It is not the first time I have asked this question or suggested outright that I don't think that the proposals that are sent up to us, any of them, are the way they are ultimately going to be.

Let me phrase the question this way. We have reviewed the original distribution of total obligation authority within the Department of the Navy. The Marine Corps was allocated a 1 percent decrease from 1989, about $91 million, while the Navy received a plus of 4.3 percent, or about $3.8 billion. The O&M numbers are even more stark. For the Marine Corps, as I recall, they are down $111 million. Depending on which figures you use, you are talking about either 6 percent or 8.9 percent, but an increase for Navy O&M.

The revised budget makes reductions to both accounts but hasn't addressed that basic inequity, from my perception, in the initial budget split; and the Navy appears to be funding its programs at the expense of the Marine Corps—not the first time, I would say, in the history of the naval tradition.

I would like to have you explain how the initial split of total obligation authority was determined and why there is such a disparity between Navy and Marine Corps accounts, and, while you are touching on that, I understand—I'm sorry I was a little bit late; I guess it was Mr. Ray from Georgia who brought up the concern that I have, charging under our O&M accounts at a time when we are having to drastically cut back and reconsider 600-ship navies and how many more ships we are going to have to build. Now we appear to be providing ourselves with an in-house capability with an increase in end strength and O&M accounts for design for ships in-house, again, to aggravate the situation of the O&M funds.

I would be pleased to hear your response about how much thought went into this between the Navy and the Marine Corps. Again, I am addressing it to the admiral, and I also just want to point out that, in my considered opinion, if I had a dollar to bet, I would bet that isn't the way it is going to end up when the final analysis comes. But I would be happy to hear your justification.

Admiral **WALSH**. Well, sir, a couple of things. First of all, when we look at either Navy readiness or Marine Corps readiness, we look at the functions and not the appropriation split. If you look at it that way, I don't think you see the imbalances as when you just look at a straight appropriation.

The reason I say that is, out of the Operation and Maintenance Navy appropriation we pay for all of Marine Corps aviation medical and all of the Marine Corps's Maritime Preposition Ships.

Mr. **MARTIN**. I understand that you are talking about all their flying hours you are paying for that aren't charged against their O&M.

Admiral **WALSH**. All the depot maintenance and the spare parts, essentially everything except the BOS for Marine Corps Air Stations is paid for out of the Operation and Maintenance Navy account.

For all practical purposes, all Marine Corps aviation is supported from Navy appropriations. All Marine Corps medical is paid for by the Navy and a good piece of their training is paid for out of the Navy account. The Maritime Preposition Ships are paid out of the Navy account.

A very large piece of the Marine Corps readiness, their ability to go to war, is not paid for out of the O&M, MC account, it is paid for out of Operation and Maintenance, Navy.

Likewise, when you look at the procurement accounts, a large part of the procurement in the Navy appropriations are for Marine Corps programs. Again, Marine Corps aviation is paid for out of the Aircraft Procurement, Navy appropriation. There are parts of the R&D account, which is an R&D, Navy, appropriation, which are Marine Corps programs.

The way the Department allocates resources occurs during the POM process. We review the current distribution of funds in constant dollars, and we look at the resources available. Both the Marine Corps and the Navy take their piece of that and determine their priorities within the resources available.

Mr. **Martin**. Would you be kind enough to provide some type of breakdown analysis of those kinds of figures for the committee so that we can look at those figures from your point of view?

Admiral **Walsh**. Yes, sir.

[The following information was received for the record:]

The allocation of DON resources between Navy and Marine Corps programs based on the fiscal year 1990–1991 President's Budget request is shown below. The allocation based on the fiscal year 1990–1991 Amended President's Budget is not yet available.

ALLOCATION OF DON RESOURCES ($000)

NAVY PROGRAMS

Appropriation	Fiscal year 1988	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991
MPN	17,921,320	18,713,123	19,059,331	19,623,315
MPMC	325,312	324,915	329,552	338,431
RPN	1,496,709	1,576,540	1,569,898	1,636,311
RPMC	1,440	1,053	1,063	1,221
OMN	24,350,395	24,814,414	25,935,810	27,069,585
OMMC	71,582	47,680	37,910	40,247
OMNR	845,827	891,835	911,599	946,147
RDT&E	9,289,777	9,116,325	9,925,455	9,335,842
APN	5,956,044	6,844,622	7,318,505	7,947,595
WPN	5,479,125	6,001,283	5,600,530	6,115,037
SCN	15,975,655	9,881,650	10,419,600	9,765,400
OPN	4,425,804	4,650,354	4,894,952	5,619,723
PMC	32,443	17,119	13,028	88,947
MCON	1,184,196	1,308,565	971,081	1,143,318
MCNR	73,737	60,900	39,618	44,423
FHI	184,701	192,174	112,288	180,273
FHO	426,772	451,266	524,722	571,305
SFN	302,592	150,890	225,883	202,487
Navy total	88,343,431	85,044,708	87,890,825	90,669,607

ALLOCATION OF DON RESOURCES ($000)

USMC PROGRAMS

Appropriation	Fiscal year 1988	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991
MPN	173,886	203,396	222,916	232,095
MPMC	5,219,043	5,373,853	5,467,899	5,622,728
RPN	12,486	13,729	13,202	13,589

ALLOCATION OF DON RESOURCES ($000)—Continued

USMC PROGRAMS

Appropriation	Fiscal year 1988	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991
RPMC	292,760	314,047	318,137	336,479
OMN	584,054	547,215	554,490	556,415
OMMC	1,759,115	1,808,154	1,707,190	1,762,253
OMNR	78,536	84,590	72,801	67,953
OMMCR	68,878	77,631	77,400	79,400
RDT&E	188,769	228,264	258,945	299,958
APN	3,414,055	2,469,083	3,465,795	3,421,205
WPN	286,194	91,687	124,470	217,863
OPN	123,794	85,737	91,948	104,177
PMC	1,243,156	1,274,721	1,194,572	1,326,353
MCON	229,958	267,951	171,019	166,982
MCNR	0	0	11,282	8,877
FHI	53,685	52,007	15,450	16,201
FHO	103,804	103,594	105,823	109,328
SFN	26,808	33,810	23,517	29,613
USMC total	13,858,981	13,029,469	13,896,856	14,371,469
DON total	102,202,412	98,074,177	101,787,681	105,041,076
Navy percentage of total	86.44	86.71	86.35	86.32
USMC percentage of total	13.56	13.29	13.65	13.68

Mr. MARTIN. I would like to ask you this question. This is not the first year it has been done that way. As a matter of fact, 1988, 1987, 1986, 1985, way back, these same kinds of things you are talking about, paying for Marine Corps aviation and those kinds of things, you say came out of the Navy account. Nothing new this year, right?

Admiral WALSH. Yes, sir.

Mr. MARTIN. If I said to you a 1.1-percent increase, for the sake of argument, in O&M for the Navy for this fiscal year and an 8.9 percent cut for the Marine Corps in O&M accounts, isn't that kind of a stark contrast if we are doing it the same way this year as we have done it in past years?

Admiral WALSH. Yes, sir, except that, for example, with the fiscal year 1990/91 program, when the Marine Corps structured their program, they looked at all their priorities. They chose to fund some procurement, military personnel and O&M items. They changed the distribution funds in accordance with their priorities. Funds were moved out of operation and maintenance and into procurement for Marine Corps programs, thus, it appears a shift from the Marine Corps to the Navy when, in fact, the funds stay in Marine Corps programs.

If you examine funding levels on an appropriation basis, there is a shift. If you look at green, i.e., Marine Corps programs, the Marine Corps chose how they wanted to allocate funds within their appropriations.

When we do a budget review, we look at the program that is approved by the Secretary of Defense, and then we do a budget review for executability. We do not try and reverse the decisions either of the Commandant of the Marine Corps or of the Secretary of the Navy or the Secretary of Defense. We review approved programs and we do a budget review.

Mr. **Martin**. On top of that cut in the training account, whatever it is ultimately going to be, if there is going to be a cut in the O&M account for the Marine Corps, isn't it also true that they take a proportionate share of the cuts in the O&M funds for the CINCs' accounts—training, major exercises? Isn't that true? You cut the training for CINC, major operations and that type of thing; the Marine Corps is going to receive a cut on top of their 8.9 percent for in-house O&M training as part of the major command structure, any of these major unified command exercises.

Admiral **Walsh**. I am not aware of any reductions to Marine Corps programs as a result of any of those things, sir. To a very large extent, an awful lot of Marine Corps training is joint training done via Navy ships and amphibious warfare. That's the Navy/Marine Corps team. We have not made any adjustments to the amphibious forces, and we have not made any adjustments to Naval aviation which affect the Marine Corps. I am not aware of any training reductions to the Marine Corps.

Mr. **Hutto**. I am sorry, Mr. Martin. We will have another round if you want to pursue that.

General, did you have a comment on that?

General **Carson**. I was just going to say that I'm not aware of any cuts, per se. In order to execute and live with our O&M budget, we are making adjustments ourselves in training. We are going to more individual, small unit training, less participation in large exercises, and training closer to home.

Mr. **Hutto**. Thank you.

Mr. Dyson.

Mr. **Dyson**. Thank you, Mr. Chairman.

Let me start out by saying I want to endorse your remarks and Mr. Ortiz' about that proposed cut in contracting out studies. I think we have all gone through that at various military installations around this country and in my own congressional district, and I really think that some day we are going to come to regret some of those contracting out arrangements that were made.

I have three questions today that concern the Civil Air Patrol (CAP), so I will address them to you, General Finan.

During the last few years, the authorization for the Civil Air Patrol has caused some problems. For example, the fiscal year 1990 O&M budget request contains $5.8 million for the Civil Air Patrol (CAP). The revised budget includes an increase of $5.3 million for CAP Air Force Audit, and the Military Personnel Center. A substantial part of these amounts support Air Force CAP such as civilian pay and TDY for Air Force personnel.

Would you provide the subcommittee with a detailed accounting of the fiscal year 1990 O&M funds requested—in essence, the funds which support Air Force needs and the funds that actually go to the Civil Air Patrol? What I am going to do is ask all three questions. If you can answer them now, fine. I think probably what you are going to have to do is provide that additional material for the record, and I would appreciate that.

My second question is: Would the Air Force have any objections to revising its future budget request to show separately the funding that goes directly to the Civil Air Patrol and is used directly on that program?

My third question is: I understand that some Air Force officials object to using appropriated funds for full maintenance of Civil Air Patrol aircraft. In view of this, would you provide the subcommittee with the Air Force's position and the reasons for that position. Also, would you please provide the position of the Civil Air Patrol on this matter.

Now if you can in a minute or two address some of those, I would appreciate it, and then, as I said, if there is no objection of the chairman, I would appreciate if they could further elaborate in the record.

General FINAN. Sir, I will be glad to provide some details on the Civil Air Patrol funding for the record. I would like to comment, though, having talked to the commander of the Civil Air Patrol myself, they appear to be adequately funded. He has told me personally he feels the support they are getting is good, and they feel their program is fully funded, and he is happy with the support he is getting.

I know of no objection to outlining separately the Civil Air Patrol funding. I feel we could probably do that if this committee would desire us to do so, and we will provide the exact funding details of how much money we have in the budget for the Civil Air Patrol for the record.

Mr. DYSON. We do desire you to do so.

General FINAN. Yes, sir.

Mr. DYSON. So if your budget people would go back—I don't know whether they are in the room or not, but if they would go back and do that, or you could at least relay that message to them. Again, those three questions I identified. I am not probably quite as optimistic about all of this as you are, because we have had to go through this over the years, making sure that the allocations for the Civil Air Patrol were, in fact, allocated to them and where, in fact, they were getting the benefit of that. We have sometimes had to drag you all into this kicking and screaming. I'm glad to see you are not kicking and screaming now, but your optimism is very much appreciated.

[The following information was received for the record:]

CIVIL AIR PATROL

Mr. DYSON. Would you provide the subcommittee with a detailed accounting of the fiscal year 1990 O&M funds requested—in essence, the funds which support Air Force needs and the funds that actually go to the Civil Air Patrol?

ANSWER. The Civil Air Patrol (CAP) program is an Air Force Program funding a private, non-profit corporation and Air Force support personnel who operate in a dual/parallel command structure. Air Force funding provides for administration of the program, while CAP funding supports corporate operations. All O&M funding, Air Force and CAP, directly supports Civil Air Patrol mission. Fiscal year 1990 O&M funding is broken out as follows:

APPN 30 APPN 3400 O&M AF	AF	CAP
Civilian personnel	1.876	
Travel of persons:		
Liaison/staff personnel	.939	
Cadet (IACE)		.210
Transportation of things	.001	
Utilities and rent	.030	
Communications	.043	
Other purchased services:		
Contract rental aircraft	.505	
Liaison office support	.026	
Insurance		.300
Mission reimbursement		1.816
Equipment/uniforms		.500
Other supplies	.049	
Equipment	.049	
APPN 30 total	3.472	2.826

Mr. Dyson. Would the Air Force have any objections to revising it's future budget request to show separately the funding that goes directly to the Civil Air Patrol and is used directly on that program?

Answer. As I stated during my testimony on May 3, 1989, I know of no objection to outlining separately the funding. Current budget requests provide a separate program element which identifies CAP funding.

Mr. Dyson. I understand that some Air Force officials object to using appropriated funds for full maintenance of Civil Air Patrol aircraft. In view of this, would you provide the subcommittee with Air Force's position and the reasons for that position. Also, would you please provide the position of the Civil Air Patrol on this matter.

Answer. The Air Force position is as follows: Title 10 U.S.C. 9441 addresses appropriated funding for maintenance of Civil Air Patrol aircraft. Section (b)(8) authorizes reimbursement for maintenance expenses associated with missions flown for the Air Force and those expenses are paid in full. Section (b)(9) authorizes payment of expenses of placing equipment into serviceable condition. Engine changes, corrosion treatment, radio upgrades, and interior refurbishment are examples of placing aircraft into "serviceable condition" so they can accomplish the mission. The Air Force has been funding these items to the extent they are not already funded through reimbursement for missions. Approximately two-thirds of Civil Air Patrol's flying is not associated with any Air Force mission; rather, it is accociated with the member's personal pilot proficiency which is not covered by law. The Civil Air Patrol Corporation position follows their belief that regardless of the direction provided by Title 10 U.S.C. 9441, full, unlimited maintenance should be provided for all corporate owned aircraft regardless of the type of flying hours accumulated i.e.: Air Force missions or normal pilot proficiently flying.

Mr. Dyson. Since the light hasn't changed, I see a question here that——

Mr. Hutto. It may go off momentarily. It doesn't turn red.

Mr. Dyson. It just goes off?

Mr. Hutto. It just goes off.

Mr. Dyson. Well, let's get this one in.

I see our staff here has put a question together that I think is a pretty good one. At the top of the page it says, "Questions for all services." I'd probably like to put this first to the Navy because I have a particular concern.

It says, "Environmental cleanup is a steadily growing problem within the Department of Defense, and I understand each of the services funds some cleanup projects within the O&M account in addition to those projects funded through the DERA, or the Defense Environmental Restoration Account. Please estimate for us what each of your services plans to spend beyond the DERA fund for environmental cleanup."

Admiral, I will let you know that one of my concerns is, obviously, the former Naval Training Center at Bainbridge. Let me say that I have not been particularly happy over the past years with the slowness with which the Navy has reacted to the formal Naval Training Center, but we have turned a corner, and now let me applaud your efforts in helping to address some very serious environmental problems that threaten the environment up there and, in addition to that, the Chesapeake Bay with those 219 underground storage tanks that have been there, some of which still containing toxic material, the 200 or so odd buildings with asbestos in them, and the pesticide landfills that have been located and discovered there at the Navy.

So if you could address that, I guess it really wouldn't be necessary for the rest of you to answer.

Admiral **Walsh**. Sir, I don't have with me the specifics of the environmental restoration program for 1989, 1990, and 1991. I can provide that to you for the record. We are working very hard at that from a number of different angles.

One of the things we have started this year is, instead of managing this as a centralized program, we have distributed the funds to the various claimants. The objective is to not only look at the cleanup of what currently has to be done but also provide an incentive to those claimants to make sure we do not generate any more hazardous waste than necessary.

We have been looking very hard at this for some time now, and we have an ongoing effort to improve our environment. I can get for you for the record the specifics of that.

Mr. **Dyson**. OK. I have just been asked that that request should go to all of you, and we would like to have that for the record from all of you.

Mr. **Hutto**. OK. If you would provide that for the record.

Environmental Program

General **Robles**. The Army funds environmental cleanup projects with the Defense Environmental Restoration Account (DERA). In addition, we fund for hazardous waste disposal operations and environmental projects. These programs comply with environmental laws and regulations. Estimated amounts the Army plans to spend for these programs are $108 million in fiscal year 1990 and $125 million in fiscal year 1991.

Environmental Cleanup

Admiral **Walsh**. Environmental Cleanup is a major concern within the Department and we are doing what we can within the resources available to us to deal with the problems as they are identified. The Navy currently has budgeted $3.6 million in fiscal year 1989, $4.1 million in fiscal year 1990, and $4.1 million in fiscal year 1991 for asbestos abatement. Cleanup of operational spills is funded out of an individual activity's O&M budget and is not centrally tracked.

The Navy has decentralized its Hazardous Waste Disposal program as a means to minimize hazardous waste generation. The Navy has a goal to achieve 50 percent hazardous waste reduction by the end of fiscal year 1992. The most effective way to minimize generation of hazardous waste, and thereby reduce the Navy's hazardous waste generation and disposal costs, is to decentralize funding and make the cost of the disposal the responsibility of the generating activity. Hazardous Waste Disposal is funded in the O&M account. The current budgeted levels for Hazardous Waste

Disposal are $37.6 million in fiscal year 1989, $38.9 million in fiscal year 1990 and $40.1 million in fiscal year 1991.

ENVIRONMENTAL CLEANUP/COMPLIANCE

General **CARSON**. There are no funds for environmental cleanup identified in the Marine Corps Headquarters Centrally Managed O&M appropriation. Estimated funding for environmental compliance within the Headquarters Centrally Managed O&M appropriation is approximately $11 million in fiscal year 1990 and $12 million in fiscal year 1991. Marine Corps installations do expend locally managed funds for emergency responses, certain other limited cleanup actions, and locally required environmental compliance.

Mr. **HUTTO**. Mr. Flinn, a few more questions for you.

The revised budget shows $465 million in reductions for Defense-wide contingencies. This amount includes $180 million for "other legislation" and $286 million for "management improvements". Please explain the contingency reductions and what they mean for the O&M account.

In addition, we have just learned of the Stevens Management Review being conducted in the Department. Could you give us an idea of what this review is about and any potential impacts that you see coming out of this effort.

Mr. **FLINN**. Yes, sir. In terms of the first part of your question, Mr. Chairman, there is an impact due to various legislation that is contained in the budget on the O&M appropriation, but I am not prepared today to talk about that. I do not have that detail with me.

Mr. **HUTTO**. If you could provide that for us.

Mr. **FLINN**. Yes, sir.

[The following information was received for the record:]

OTHER LEGISLATION

The budget revision reduces the Other Legislation line of the DOD budget by $179.6 million from a level of $309.1 million in the original fiscal year 1990 request. The budget revision reflects the elimination of several items because of marginal benefit, high cost or lack of strong consensus on the merits of some of the proposals, both within and outside the Department. The balance of $129.5 million in Other Legislation includes a net $84.0 million savings for proposals that would impact the O&M appropriations. The programs and associated amounts contained in the Other Legislation line applicable to O&M appropriations are:

	Millions of dollars
Cost items:	
Travel—ship construction	1.4
Student travel—Alaska/Hawaii	.5
Civilian training	6.4
Reimbursement of parking fees	6.1
Overseas school lunches	2.0
Employee benefit portability	8.7
Water/sewer payments	14.8
Total cost items	39.9
Savings items:	
Goverment postage	—85.0
Transfer of Pentagon from GSA to DOD	—38.9
Total savings items	—123.9
Net O&M impact	—84.0

Mr. **FLINN**. In terms of the management improvements, the budget reflects a $286 million reduction in 1990 and an additional

$433 million in fiscal year 1991 relative to these management improvements.

You referred to the Stevens Commission Report. That report is to go to the Secretary, as I understand it, the latter part of this week. The Secretary, after reviewing the recommendation, will approve and forward the report to the President.

Mr. HUTTO. But what is the Stevens Management Review?

Mr. FLINN. It is a review and report on overall management initiatives within the Department relative to how we can achieve greater efficiencies. I have not seen any draft of the report, but I understand a large effort of the report has to do with headquarters and acquisition type initiatives.

The funding adjustment reflects an anticipated reduction that the Department will distribute once the report is finalized. The department will provide the congressional committees the distribution of these dollars by military component and appropriation as soon as that data is available.

Mr. HUTTO. Section 8063 of the general provisions requests permission to merge working capital funds into the O&M account and increases the Navy transfer ceiling from $126 million to $237 million. Please explain this provision and the reason for the increased authority.

Mr. FLINN. Sir, this provision provides for the realignment of resources from the revolving funds, and in this instance it is from the stock funds of the Navy into the O&M, Navy appropriation, in order to finance program requirements. We do this in a way so that we don't require additional budget activity, budget authorization, for these programs. There are stock fund assets that will materialize during 1989 and during fiscal year 1990 that we will then use the authority to realign, reprogram, these stock fund assets to the Navy O&M appropriation in order to reuse those resources.

Mr. HUTTO. It is my understanding that the Air Force stock fund had a $490 million shortfall that accumulated for the fiscal year 1980 through 1988 because it did not fully recover the cost of fuel sales. This is for you, General Finan.

Also, I believe that $133 million of this shortfall was charged to the Air Force's M account. Please explain how a shortfall of this magnitude came about. When did the Air Force first become aware of the problem? Isn't the Air Force stock fund supposed to be fully reimbursed for the fuel it sells to the customers? Why wasn't the entire shortfall of $490 million charged to the Air Force M account? How did the Air Force handle the balance of the shortfall, the $357 million that was not charged to the M account?

General FINAN. Mr. Chairman, I think what you are addressing is a problem that surfaced several months ago in our stock fund fuels accounting.

The basic problem is, we have two different systems tracking our fuels. One system is our supply system which supposedly tracks the sales and receipts, and the other system is an accounting system that tracks weapon system fuel consumption by weapon system designator, and we use this to forecast flying hour costs and project budgets.

The two systems, for some reason or another, seem to be out of balance, and we aren't quite sure where the problem is in resolving that balance.

The $490 million you are referring to is the difference between what the supply system indicates they have sold and what the accounting system indicates they have billed for, and it covers a period from 1980 up through 1988. We have been working on this and trying to resolve this problem.

The reason the initial payment was made out of the M account is because, when we went back and asked our accounting folks to resolve the billing, they took a look at the bills in segments and initially looked at the billing from 1981 through 1985 and said they felt that those bills were valid bills that should be paid to the stock fund.

Based on that, a payment was made, and since it was referring to years that already had expired, that payment was made out of the M account.

We then asked them to go back and validate the remainder of the bills for 1986 through 1988 and 1989. At that point, when we saw the size of the bills and the fact that the problem seemed to be getting worse rather than better, we called in our auditors and asked them to do a thorough review of both why the discrepancy, which bill was actually correct and which system is reporting correctly, the supply system or the accounting system, to give us some recommendations how to preclude this from happening in the future, and then resolving whether we should continue making payments for the rest of the bills or, if necessary, we might even have to refund the payments that had been previously made if they were found to be in error.

We do not have the results of that audit finished yet. We have talked to our chief auditor and asked for priority assistance on that. They are hoping to finish up the audit some time in late June or July, and at that point we will really have a better handle on which way we go as far as continuing payments and what the size of the problem really is.

Mr. HUTTO. OK. If you would provide the committee with a report of that.

General FINAN. Yes, sir, we will be happy to.

Mr. HUTTO. All right.

[The following information was received for the record:]

AIR FORCE STOCK FUND

The report of audit will be provided as soon as it is available.

Mr. HUTTO. Mr. Ray.

Mr. RAY. Mr. Flinn, this is a follow up on Mr. Dyson's comments about the environmental restoration accounts and so forth. You might want to submit this for the record if you don't have the figures. We need to clarify how much money is set aside for cleanup under the DERA fund, and how much is set aside for compliance out of the O&M funds. You are welcome to submit that for the record, if you would.

Mr. FLINN. We will submit that for the record, sir.

Mr. RAY. OK.

[The following information was received for the record:]

ENVIRONMENTAL CLEANUP

As required by the Congress the Department centrally budgets for environmental cleanup regulated by the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) in the Environmental Restoration, Defense transfer appropriation. For fiscal year 1990 and fiscal year 1991 DOD has budgeted $517.8 million and $519.9 million, respectively. The Services are responsible for financing the disposal of hazardous waste and compliance with other environmental laws and regulations, and the O&M amounts are as previously identified.

Mr. **RAY**. One other question, Mr. Flinn. For the Armed Forces Information Service, the revised budget shows a reduction in fiscal year 1990 of $1.7 million and $2.6 million in 1991. This reduction will postpone expansion of commercial transmission to overseas areas and postponement of live radio Navy ships. Are you aware of that? It would appear to me that it cuts into the quality of life of people who are confined a long way from home. Is this a priority, or is it something that might be reconsidered?

Mr. **FLINN**. It can always be reconsidered, sir.

Considering the reductions we had to take in the defense agencies and assigning these reductions, and in dealing with the Armed Forces Information Service, this was an area where they felt they could take a reduction with the least amount of disruption.

Mr. **RAY**. I am going to ask another question here.

Mr. Cofer, did you want to ask something?

Mr. **COFER**. I would just like to add one point of view to Mr. Ray's. The subcommittee had a lot of mail, and the chairman of the Foreign Relations Subcommittee received a lot of mail—and the admiral may be aware of this—that some months ago the Navy made a decision to cut out the short-wave transmission aboard ship. The whole thesis was that there would be no entertainment or no radio transmission aboard ships until we got in these satellites which were coming toward the end of the year.

Mr. Ray is addressing this now. If we are going to cut out the money for the satellites, and the Navy has already reduced the money for the short-wave transmission, now we are saying that live broadcasts are out. I think his concern is, what kind of transmission in terms of quality of life will the ships now have at sea?

Does that basically summarize the question, Admiral?

Admiral **WALSH**. I may be missing something, but in 28 years in the Navy, most of which has been at sea on small ships, I have never gotten a short-wave transmission from anybody. I don't know what program was providing short-wave entertainment.

Mr. **COFER**. We have a lot of letters on it.

Admiral **WALSH**. To be honest with you, I am unaware of a program that was trying to do this, either by short wave or by satellite. It is probably just one of the things that I am not aware of.

Mr. **COFER**. I would like to follow up with you on this afterwards. We will send you the letters.

Admiral **WALSH**. OK.

Mr. **COFER**. We have about 12 letters. We asked the Navy liaison for a response, and we did get a response. Basically, I have summarized it as best as I could. Could the Navy provide us with some information on this issue?

[The following information was received for the record:]

LIVE RADIO AND TELEVISION TRANSMISSIONS TO U.S. SHIPS

In the past, U.S. warships have "tuned-in" with onboard receivers to short-wave news and sports radio broadcasts provided by the Armed Forces Information Services (AFIS) through the lease of excess Voice of America (VOA) transmitter time. These signals were of very low strength causing poor reception when ships were far at sea. Recently VOA began raising its rates three to four times a year for an annual cost of $3 million. VOA offered to increase signal strength but the price was prohibitive.

While individual ships communication systems can still receive regular low frequency signals and those of the British Broadcasting Corporation (BBC), AFIS ceased leasing VOA transmitter time last fall and began a communications satellite leasing program in October 1988 with annual lease costs of $900,000. This satellite program will provide nearly world-wide coverage to Navy ships and shore stations. It is currently in operation over the Pacific, providing 16–18 hours of daily coverage. Land-based receivers are being procured at a cost $2,000 per receiver and shipboard receivers will be procured beginning in December 1989 with the $2 million budgeted in the Other Procurement, Navy account.

Shipboard receiver development was difficult. The original International Maritime Satellite (INMSAT) commercial receiver did not meet Navy standards for hardness (the ability to withstand shock damage). Moreover, it was a two-way communication system which sent out a carrier beam which would reveal the location of the ships the receiver was placed on. Accordingly, the Navy could not simply purchase the off-the-shelf INMSAT commercial ship receiver. Two (2) experimental systems were tested with great success on the U.S.S. *New Jersey* (BB–62) and U.S.S. *Berkeley* (DDG–15). The Sacramento Army Depot in California is expected to award a contract for the systems in December 1989 using OPN funds. However, the INMSAT system cannot pick-up television signals for two (2) reasons:

1. A bigger receiver dish would be required to pick-up the weaker T.V. signals (6' vice the current 3'). Such a large dish could not be fitted on smaller ships.
2. Current television satellites are located in geosynchronous (stationary) orbits above the United States and their signals only transmit 100–150 miles from the U.S. coastline.

Foreign transmissions for ships assigned to the Mediterranean were tried on the U.S.S. *Forrestal* (CV–59) and U.S.S. *Independence* (CV–62), but were disliked by crewmen. In fiscal year, 1992–1994 the Armed Forces Satellite Television and Radio Service (AFSTRS) will launch new satellites which will embody new "compressed T.V." technology allowing the use of small dish television receivers to be deployed on ships.

Mr. HUTTO. Mr. Ray, you are still on.

Mr. RAY. Yes, sir.

Mr. Flinn, within the last few years there has been some considerable interest in the merged surplus and M accounts maintained by DOD and military departments. A March 1987 General Accounting Office report states that at the end of September 1985 DOD's merged surplus authority and M account balances were $25.5 billion and $6.3 billion, respectively. Recent articles in the press estimate the size of these accounts to range from $30 billion to more than $100 billion. Do you know what the current balances in these accounts are; and, if you do, can you break them down by service? If you don't know that, please submit it for the record for us. But I would also like to know how these funds accumulated, and what are they used for, and for what purposes will they be expended in the future.

Mr. FLINN. I will have to provide the estimates for the record.

[The following information was received for the record:]

The amounts maintained by OSD(C) for the Surplus Fund and the "M" Account are not the official balances. The official amounts would have to be obtained from each Military Department. The following amounts are based on memorandum records maintained by OSD(C).

AS OF SEPTEMBER 30, 1988

[In billions of dollars]

	Surplus fund balances	"M" account unexpended balances
Army	$10.7	$3.1
Navy	9.9	7.0
Air Force	6.9	4.2
Defense agencies/defense wide	2.5	.4
Total	$30.0	$14.7

Mr. Flinn. The M account represents unexpended balances of various appropriations that have expired. The funds are used to cover obligation adjustments that accrue against these prior year appropriations.

Mr. Ray. Perhaps you or General Robles could respond to this question here. The Rifle Practice, Army, Account last year was less than $1 million. This year it is $5.6 million. What is the reason for an increase in that account in these hard times?

General Robles. Sir, I will provide that for the record. I was not aware that we had such a gigantic amount for the National Board for the Promotion of Rifle Practice Account. I knew there was a plus for the increased cost of ammunition but not at that magnitude. So I respectfully ask that I submit that for the record.

Mr. Ray. Yes, sir. I would appreciate your doing that.

General Robles. I sure will.

Mr. Ray. Thank you, sir.

[The following information was received for the record:]

NBPRP APPROPRIATION

The Appropriations for the National Board for the Promotion of Rifle Practice (NBPRP) increased from $920,000 in FY 1986 to $4,300,000 in FY 1987 as a direct result of Congressionally approved reprogramming to avoid future anti-deficiency violations. Prior to FY 1987, NBPRP was provided additional support from other appropriations, and as a result total dollar support to the NBPRP program was not visible. These amounts were identified and budgeted for through the NBPRP appropriation beginning in FY 1987. In reality, the program has remained constant, at about $4,000,000, over the past several years.

The majority of the increase from FY 1989 to 1990 budget submittals is for needed range improvements at the site of the annual National Trophy Matches, Camp Perry, Ohio. The Ranges need to be leveled to eliminate the problems associated with standing water and the resultant health hazards created by the natural breeding areas for mosquitoes. Leveling the range surfaces will require reseeding and new sod. Spraying and fumigating the area have been unsuccessful in the past. Since the four ranges abut Lake Erie the water table is too high to drain the area effectively. A concurrent project is to repair the existing target carriers, many of which currently pose safety hazards to the "target pullers" stationed in the pits. Additionally, the upgrade of the existing berms which protect the target pullers from the shooters on the firing line will be completed. Engineer work previously accounted for approximately 6.6% of the NBPRP budget. In FY 1990 it will account for approximately 11.3% of this budget. The programmed cost for this project is $312,000.00. The overall increase in the budget between FY 1989 and FY 1990 is $400,000.00. The Engineer project thus accounts for 78% of the request for funds above the FY 1989 level. The remaining 22% of the $400,000 increase, or $88,000, is directly associated with costs imposed by support or contractual activities. The $88,000 represents a real growth in Budget Authority of 2%.

The increase between the FY 1990 and FY 1991 budgets is necessary for program support. As part of the Civilian Marksmanship Program, affiliated Clubs and Associations are offered the opportunity to purchase at government cost ammunition components which are necessary to conduct more active programs which support the intent of Congress to promote and expand rifled marksmanship training. Every dollar spent to support this supplemental activity is returned to the Treasurer of the United States including handling and shipping charges. The Director of Civilian Marksmanship must purchase the component items to make them available to the supported constituency. The purchase is programmed periodically to insure adequate stockage is available. Under current arrangements the Director of Civilian Marksmanship will purchase periodically the necessary supplies to insure a minimum of three years of inventory.

Additionally, with no growth in affiliated membership, the price of calibre .22 ammunition will increase by $290,000 for FY 1990. This is attributable to an unprogrammed cost increase of 1 cent per round. Thus, there is an automatic program shortfall of $169,000 between FY 1989 and FY 1990; and the planned FY 1991 purchase of $980,000 for ammunition and ammunition components will have to be reduced to $690,000. In FY 1989 the ammunition account constituted 23.3% of the Budget Authority. In FY 1990 ammunition accounts for 23.8% of Authority. The ammunition figure for FY 1991 increases to 37.5% of requested Budget Authority.

Mr. Hutto. Thank you very much, Mr. Ray; and we want to thank you gentlemen very much. We know that this is a very difficult thing.

One final question I would like to ask you, Admiral. Now what is the situation? I believe it is the U.S.S. *Enterprise* that will be our first nuclear carrier to be refueled. Is that correct?

Admiral Walsh. Yes, sir.

Mr. Hutto. When is that scheduled?

Admiral Walsh. In fiscal year 1991, sir.

Mr. Hutto. In 1991.

Admiral Walsh. Yes, sir.

Mr. Hutto. Is money in the O&M account for that?

Admiral Walsh. Yes, sir. The refueling overhaul is scheduled at Newport News starting in fiscal year 1991.

Mr. Hutto. Does it take into account the tremendous additional costs? What is the cost? Do you know how much it is going to be?

Admiral Walsh. I believe the total cost is something on the order of about $1.5 billion, of which about $500 million has already been obligated.

Mr. Hutto. Five hundred million?

Admiral Walsh. Will be obligated through fiscal year 1989. That includes the cost of the fuel which will keep her running for another 20 years.

Mr. Hutto. How long does it take to refuel?

Admiral Walsh. About 2 years, sir.

Mr. Hutto. So we are talking about $1.5 billion that has to be taken out of O&M.

Admiral Walsh. Yes, sir.

Mr. Hutto. If we don't have an increase to reflect that amount, it is going to be taken from somewhere else, I'm assuming.

Admiral Walsh. It is currently within the budgeted amount which is in the amended fiscal year 1990/1991 submit.

Mr. Hutto. How much of it? Half of it?

Admiral Walsh. In fiscal year 1991, it is $867 million.

Mr. Hutto. It is half, I guess, about half.

Admiral Walsh. The amount that is in fiscal year 1991 is in the ship overhaul line. It is within a balanced overhaul program, and it has been planned for some time.

Mr. Hutto. OK. It is planned for, and you are telling me it is not really going to impact adversely on other——

Admiral Walsh. Yes, sir, that is correct.

Mr. Hutto. OK. Thank you.

Mr. Tanner, I am sorry you didn't get here for the testimony. We will give you the opportunity if you have questions.

Mr. Tanner. No, sir, not at this time, Mr. Chairman. I'm sorry I'm late.

Mr. Hutto. Well, we can bring you up to date on what happened. We appreciate your coming, too.

Our staffer, Mr. Cofer, has a question.

Mr. Cofer. Yes. So that we can align ourselves with the Air Force problem, I would like for each of the services to define for the record whether or not they have an M account and the balance in those accounts. Thank you, Mr. Chairman.

MERGED SURPLUS AND MERGED ("M") ACCOUNTS

Answer. The Army maintains both merged surplus authority accounts and "M" accounts for its appropriations. As of 30 September 1988, the balance in the merged surplus authority account is $10.4 billion; in the "M" account, the balance is $3.0 billion.

The current Department of the Navy "M account" balances are shown below. For explanatory purposes it should be noted that there are two distinctly different portions of the "M" accounts. The first is called the "merged surplus" accounts which represents the current unobligated balance of the appropriation. These funds are only available to fund valid obligation adjustments made subsequent to expiration of the appropriation. The second are called "merged (m)" accounts which represent the current balance of valid unpaid (unliquidated) obligations incurred while the appropriation was legally available for obligation plus valid obligation adjustments after the appropriation expired.

DEPARTMENT OF THE NAVY
SUCCESSOR "M" ACCOUNT
AS OF 31 MARCH 1989

	Unliquidated Obligations	Merged Surplus Account
MILITARY PERSONNEL		
1453 - MILPERS, NAVY	42,723,709.84	1,364,814,455.69
1105 - MILPERS, MC	8,100,459.81	969,058,746.85
1405 - RESPERS, NAVY	4,528,916.51	291,789,035.55
1108 - RESPERS, MC	1,630,400.27	144,567,029.69
SUBTOTALS	56,983,486.43	2,770,229,267.78
OPERATION AND MAINTENANCE		
1804 - O&M, N	1,949,072,415.15	1,670,430,193.34
1106 - O&M, MC	125,255,052.39	401,760,421.79
1806 - O&M, NR	57,780,450.78	132,164,115.48
1107 - O&M, MCR	4,400,642.06	17,028,349.33
SUBTOTALS	2,136,508,560.38	2,221,383,079.94
PROCUREMENT		
1506 - APN	1,227,522,197.37	705,342,213.32
1507 - WPN	524,524,437.51	331,533,517.61
1611 - SCN	870,102,833.30	876,277,921.95
1810 - OPN	687,017,192.95	387,728,414.84
1109 - PMC	281,471,883.89	132,440,612.43
1505 - PROC. OF ACFT & MISSILES, N	41,790,978.56	97,052,328.57
SUBTOTALS	3,632,429,523.58	2,530,375,008.72
RESEARCH, DEVELOPMENT, TEST & EVAL		
1319 - RDT&E, N	629,127,525.22	178,927,622.42
SUBTOTALS	629,127,525.22	178,927,622.42

	Unliquidated Obligations	Merged Surplus Account
MILITARY CONSTRUCTION		
1205 - MILCON, N	9,928,230.23	6,474,364.92
1235 - MILCON, NR	71,570.66	99,181.19
SUBTOTALS	9,999,800.89	6,573,546.11
FAMILY HOUSING		
0703C - FAMILY HOUSING, N & MC	64,570,522.43	91,537,252.34
SUBTOTALS	64,570,522.43	91,537,252.34
GRAND TOTALS	6,529,619,418.93	7,799,025,777.31

Mr. Hutto. All right. We want to thank you again for coming. We know it is not easy to lop $1.5 billion off of O&M, but we look forward to working with you on it. We have other questions that we will present to you, and we would like a timely response if you will, please.

Mr. Flinn. Yes, sir.

[The following questions were submitted to be answered for the record:]

Foreign Currency Fluctuations

Mr. Hutto: The revised budget includes a FY '90 reduction of $351 million for foreign currency fluctuations. This reduction accounts for 23% of the overall reduction in O&M budget authority and 29% of the overall reduction in O&M outlays.

The explanation given is that it is assumed the upward trend in the U.S. dollar will stabilize at the current rates. It is explained further that the increases in the exchange rates are those that occurred since formulation of the Reagan budget.

When were the initial and revised foreign currency exchange rates established?

Are you comfortable with this reduction since it accounts for such a large part of the O&M reduction, particularly since many economists believe that within the next six months the dollar will fall?

What is the basis for your projection?

What course of action is open to DoD if the exchange rates fall rather than stabilize as assumed in the revised budget?

Mr. Flinn: The foreign currency exchange rates for the initial FY 1990/FY 1991 budget were based on exchange rates experienced in November 1988. The foreign currency exchange rates for the revised FY 1990/FY 1991 budget are based on exchange rates experienced in March 1989.

Yes, I am comfortable with this reduction. Since January the U.S. dollar has continued to increase in value compared to other currencies. Obviously, this situation could change in the future since the value of the U.S. dollar is so volatile and impacted by many external factors within the U.S. as well as throughout the world.

The Department does not attempt to project where the value of the U.S. dollar will be during execution. Since the Foreign Currency Fluctuations, Defense appropriation was established, the Congress has requested that the Department submit the budget based on exchange rates experienced during budget formulation.

During execution if the value of the U.S. dollar declines below the budgeted rates reflected in the revised budget, the Department will finance the increased costs with assets available in the Foreign Currency Fluctuations, Defense appropriation. If the Foreign Currency Fluctuations, Defense assets are inadequate to fully finance the increased cost associated with the decline in the value of the U.S. dollar, then the Department may have to defer some Operation and Maintenance discretionary programs or reprogram from other sources.

Mr. Hutto: In February, the Director of the Defense Logistics Agency told the subcommittee that it could realize a $139 million decrease in operations and maintenance funding for fiscal year 1990 and another $110 million reduction in fiscal year 1991. DLA attributed this reduction to increased productivity.

The revised budget requests an increase in O&M funding for DLA of $28 million in 1990 and $28 million in 1991. What assumptions changed to cause this turn-around?

Mr. Flinn: The increases contained in the revised budget request are the result of a transfer of functions previously funded by the Military Departments so there is no impact on the

DLA productivity assumptions which are still contained in the revised budget request. Specifically, a total of $29.2 million was transferred to DLA from the Army ($14.6 million) and the Navy ($14.6 million) to support afloat prepositioned tanker ships. The fuel aboard the prepositioned tankers is not owned by the Services but by the Defense Stock Fund. Consequently, the funding for the charter support of these tankers should be provided by the Defense Logistics Agency. Also, $1.5 million was added in both years to support training requirements related to implementation of the Total Quality Management (TQM) concept, while $2.6 million and $2.7 million, respectively, were reduced in each fiscal year based on revised foreign currency assumptions.

Mr. Hutto: Since the DLA work load is controlled by the service requirements, doesn't an overall draw down interpret into reduced work load?

Mr. Flinn: Not necessarily, because the relationship of DLA workload to overall funding levels is complex. The overall Defense budget has declined in real terms for the last four years, but during that period DLA has experienced workload growth, although at a declining rate. The deployment of weapon systems funded in previous years, as well as the normal migration of items into the Agency for management are two of many factors which can cause an increase in the number of spare parts DLA handles while Service budgets are declining. The DLA budget request assumes zero workload growth, over FY 1989 levels, in FY 1990 and FY 1991, reflecting a declining rate of DLA workload growth and the Agency's projections that it should be leveling off.

DoD Dependents Schools

Mr. Hutto: The Deputy Director of DoD Dependent Schools told the subcommittee in February that much of the $915 million O&M request reflected price growth and foreign currency adjustments. The revised budget shows a $42 million reduction to the prior request for fiscal year 1990 and another $57 million reduction in fiscal year 1991. The budget revision states that there is "no serious adverse effect on the overall educational programs as a result of these reductions. Why did you ask for the money in the first place? What programs will have to be eliminated to accommodate this reduction and what will be the effect upon the quality of education provided to military family members?

Mr. Flinn: The fund increase for Dependents Schools in the initial FY 1990/1991 budget was intended to effect program improvements and occurred before the Department was required to reduce funding by $10 billion. In order to accommodate this reduction, the Agency programs as well as those of the Services were reduced.

The reductions for DoDDS were taken for the most part in areas where we could avoid a short term direct impact on the quality of education in the classroom. These reductions were in maintenance and repair of the buildings, purchases of textbooks/equipment, and some improvements in the management programs for the school system. While these funds were intended for justified needs of the schools, they are by their nature of lower priority than the direct classroom programs. A portion of the reduction was also taken in classroom and support staff. When that portion of the reduction is distributed over the entire school system, it represents a very small decrease in the overall staffing levels and should not have a serious adverse effect on the overall educational program. We believe that the revised budget is adequate to continue the necessary level of educational support to our military dependents. The level of funding and staffing provided in the revised budget should enable the dependents schools to continue comparing favorably with the public school systems of the United States.

Civilian Pay Raise

Mr. Hutto: The revised budget contains a 3.6% pay increase for military but only a 2% for civilian personnel. Recently Congress has made a point of providing equal raises to both military and civilian employees. If Congress approves a 3.6% raise for civilian workers what will this equate to in terms of actual dollars, and how has DoD absorbed similar increases in the past?

Mr. Flinn: DoD has budgeted approximately $530 million in FY 1990 for the 2 percent civilian pay raise effective January 1, 1990. If the Congress approves a civilian pay raise of 3.6 percent, the increase of 1.6 percent would cost an additional $424 million for a total of $954 million.

In the past DoD has absorbed pay raises by reducing discretionary programs or reprograming from other approved programs. For FY 1989 the Department proposes to use inflation savings based on revised economic assumptions and savings resulting from projected lower fuel prices.

Mr. Hutto: The Chemical Agents and Munitions Destruction account is now over 50% O&M funded. Please spend a minute explaining this account and what it is used for?

Mr. Flinn: The Chemical Demilitarization program funds the destruction of the unitary lethal chemical weapons stockpile. Continued storage of these aging weapons, many of World War II vintage, poses an increasing threat to public safety due to the risk of accident, natural disaster or sabotage, a risk recognized by Public Lay 99-145 which directed the Department to destroy the stockpile by 1994. The FY 1989 Authorization Act (P.L. 100-456) extended the deadline to 1997. The Chemical Agents and Munitions Destruction, Defense appropriation provides the necessary resources to design, test, equip, operate, and later, dismantle and decontaminate disposal facilities at eight stockpile sites in the Continental United States. A full scale prototype facility has been constructed on Johnston Atoll to evaluate the disposal technology prior to CONUS operations. Community emergency response programs, pre-disposal weapons transportation and other related activities are also funded.

In FY 1990 and FY 1991, Operation and Maintenance funding covers operational verification testing activities on Johnston Atoll, continued disposal operations at a pilot facility at the Tooele Army Depot, and completes incapacitant agent disposal at the Pine Bluff Arsenal. Additionally, the funds support site-specific environmental documentation, began withdrawal of U.S. stockpiles in Europe for disposal, continue emergency response planning, and finance associated technical and program administrative tasks related to the disposal effort.

AIRCRAFT DEPOT MAINTENANCE

Mr. Hutto: Admiral Walsh: On page 3 of your prepared statement, you indicate that the backlog of Aircraft Depot Maintenance will increase by $36.3 million in FY 1990 due to the budget amendment. Could you tell us specifically what types of aircraft will not be inducted and what other maintenance work will not be done?

Adm. Walsh: At the present time the workload that will be reduced as a result of the budget amendment is being evaluated. Adjustments to the workload are being re-prioritized so as to minimize the impact to any specific areas. Once this is completed it will be loaded into the budget models. After the models are run, a detailed listing of the types of aircraft that will not be inducted will be available. This information will be provided at a later date (approximately 2 to 3 weeks).

AIRCRAFT DEPOT MAINTENANCE

Mr. Hutto: Would you provide for the record a breakout of the impact of this reduction on each of the Naval Aviation Depots?

Adm. Walsh: Again, the workloads are being re-prioritized and adjusted in detail. The requested information will be provided after the re-prioritization is complete and the details by Naval Aviation Depot can be identified.

NAVY/MARINE CORPS O&M BUDGET MISMATCH

Mr. Hutto: Admiral Walsh, when you last appeared before the subcommittee, you heard member concern that the Marine Corps O&M request had been significantly reduced while the Navy O&M request had increased over FY 1989 levels. How much has the budget amendment altered that relationship in terms of relative growth and decline compared to FY 1989 levels?

Admiral Walsh: The Amended FY 1990/1991 President's budget request for Operation and Maintenance, Navy and Operation and Maintenance, Marine Corps is shown in the table below.

	($ in Millions)	
	FY 1990	FY 1991
Navy		
Original President's Budget	$26,490.3	$27,626.0
Amended President's Budget	26,191.8	27,287.8
	-298.5	-338.2
Marine Corps		
Original President's Budget	1,745.1	1,802.5
Amended President's Budget	1,716.3	1,775.5
	-28.8	-27.0

The O&M Marine Corps reduction is totally related to revised foreign currency requirements and an across the board two percent reduction in base operations support. Reductions to O&M Navy for the same items total $92.3 million in FY 1990 and $77.7 million in FY 1991.

The Department desires to allay the concern of the committee regarding Marine Corps budget reductions. Funds are applied to programs approved by the Secretary of the Navy and the Secretary of Defense in support of national strategy. Once these priorities are identified, whether Navy or Marine Corps, associated funding is applied. Cost estimates for approved programs may change, but the Department's priorities for the Navy/Marine Corps team remain intact.

A considerable amount of funding support for the Marine Corps is budgeted in Navy appropriations. Marine Corp appropriations primarily support Marine Corps "unique" programs. All Marine Corps aviation support is contained in the Operation and Maintenance, Navy, Aircraft Procurement, Navy and Weapons Procurement, Navy appropriations. Marine Corps R&D efforts are funded out of the Navy's RDT&E appropriation.

Data provided to the committee for FY 1989-FY 1991 which shows "Blue Dollar" support of Marine Corps programs by appropriation continuing at the same level of about nine percent per year should ease concern.

SHIP MAINTENANCE AND MODERNIZATION

Mr. Hutto: What specific impact has the budget amendment had upon the earlier Navy request for ship maintenance and modernization in FY 1990?

Adm. Walsh: The original FY 1990 budget request for ship maintenance and modernization was $5,206,099,000. The amount contained in the budget amendment for ship maintenance and modernization is $5,160,258,000, which is a reduction of $45,841,000. The program is reduced because ships are being retired on an accelerated schedule or transferred to Reserve status and no longer require maintenance or modernization with O&M,N funds. Therefore, this reduction does not affect the ship overhaul backlog in FY 1990.

NAVY SHIP OPTEMPO AND FLYING HOUR ESTIMATES

Mr. Hutto:

The last time you came before the Committee to testify about the Navy ship OPTEMPO and flying hour requests for FY 1990, you indicated that the adequacy of funding was somewhat dependent upon a significant reduction in the level of operations in the Persian Gulf.

Does the same qualification apply to the ship OPTEMPO and flying hour estimates for the budget amendment?

Adm. Walsh: Yes. Revised estimates for the ship OPTEMPO and flying hour requests, as were the original budget estimates, are based on Mid-East operating force levels which existed prior to commencement of Persian Gulf convoy operations and do not include any contingency funding for an increased level of operations in the Persian Gulf.

Mr. Hutto: Do you have more confidence in the ability of the Navy to reduce operations in the Persian Gulf to correspond to your most recent budget assumptions?

Adm. Walsh: The Department of the Navy does not budget for contingency operations. Therefore, the Navy did not assume any funding to support Persian Gulf convoy operations in FY 1990 and FY 1991.

USS CORAL SEA

MR. CHAIRMAN: How large and what type of savings in the Navy O&M request for FY 1990 are realized from the retirement of the carrier Coral Sea?

ADMIRAL WALSH: The total FY 1990 O&M,N cost savings included in the FY 1990/1991 Amended Budget Submission for the retirement of the Coral Sea is $35.6 million. A breakdown of these savings is as follows:

Activity Group	Savings($M)
Ship Operations	19.0
Ship Maint/MOD	8.7*
Fleet Operations Support	7.9
Total	35.6

* Reflects net O&M,N savings for ship maintenance and modernization after deducting $26.0 million for offsetting inactivation costs.

BASE OPERATIONS SUPPORT

Mr. Hutto: In your previous testimony before this subcommittee, you indicated that Navy Base Operations Support funding had been cut about as far as was prudent. Why do you think it now can be cut an additional $60.4 million and how much confidence do you have that management efficiencies are going to be able to fill the gap?

Adm. Walsh: The reductions will ultimately impact on the quality of life of military personnel and their dependents. Some examples of reductions in services that will be made to effect the cut include shortening the air conditioning season by 3 weeks, imposing a 50% reduction on administrative travel, reducing base shuttle bus services by 20%, limiting air station runway operations to 16 hours per day, eliminating small boat maintenance, deferring overhauls of service craft, reducing scope of base support contracts by reducing response times, reducing frequency and standards of janitorial and refuse collection services, reducing security guard posts and roving patrols, deferring all underwater facility inspections, reducing administrative training and management assistment programs, closing nonprofitable clubs, eliminating spending on replacement personnel support equipment, and reducing galley hours of operations.

LOGISTICS SUPPORT ACTIVITIES

MR. CHAIRMAN: I see that one of the impacts of a $15 million reduction in the logistics support activities request in the budget amendment is to slow the growth related to "safety and reliability and maintenance procedures." What kind of safety impact are you talking about and how much of the $15 million savings is related to it?

ADMIRAL WALSH: The reference to slowing the growth in safety refers to a reduction of $1,532 thousand to the Chemical, Biological, and Radiological protective equipment line in the budget. The funding in this line is used to purchase individual protective equipment to outfit military bases overseas whose personnel may be subjected to chemical, biological, and radiological hazards due to attack. Outfitting the overseas bases with chemical, biological, and radiological (CBR) equipment is accomplished on a priority basis. The priority is driven by the geographic location and its associated susceptibility toward attack, should a conflict materialize. The current funding profile will allow the Navy to completely outfit all the high priority bases by the end of FY 1990, but the outfitting of the lower priority bases will slip to FY 1993, leaving approximately 4,000 positions unprotected during this time frame.

STRATEGIC SEALIFT

Mr. Hutto: According to the justification material we have received, the $10.9 million reduction in Strategic Sealift is due to Basic Maintenance Charges (BMC) consistent with the current inventory of ships for Afloat Prepositioning Forces (APF). What does this mean in layman's terms.

Adm. Walsh: These funds were found to be excess based on a review of the FY 1989 Afloat Prepositioning Forces program execution which was carried forward to FY 1990 and FY 1991.

CONGRESSIONAL ADDBACKS

Mr. Hutto: Admiral Walsh, if Congress were to find some additional budget authority for Navy O&M, what cuts would you like to see restored?

Adm. Walsh: Our greatest deficiency is in base operating support.

RETIREMENT OF P-3'S

Mr. Hutto: Why did the Navy elect to reduce active P-3 squadrons by one aircraft instead of reducing the number of 9 aircraft squadrons? Could the Navy have saved more O&M funding if it had opted to reduce the number of active squadrons?

Admiral Walsh: The decision to reduce the allowance of aircraft in P-3 (VP) squadrons by one aircraft was based on operational requirements. The number of VP squadrons is based on operational and training requirements to conduct worldwide Anti-Submarine Warfare (ASW) surveillance. These ASW surveillance missions require VP squadrons to forward deploy to overseas bases for approximately six months at a time. Based on the operational and training requirements, 24 active and 13 reserve squadrons is the minimum number of squadrons necessary to meet peacetime commitments and remain within DoD OPTEMPO/PERSTEMPO goals. Admittedly each squadron will be able to cover less territory but this is preferable to not being able to meet deployment requirements. Additionally, 24 active and 13 reserve VP squadrons will be required to support the Long Range Air ASW Capability Aircraft (LRAACA) which will begin replacing the P-3 aircraft in FY 1994. The O&M savings would not have been greater if the number of squadrons were reduced, since 24 active and 13 reserve VP squadrons will be required to support LRAACA. The costs to disestablish and later reestablish a squadron are greater than the savings that would be generated by such an action.

Marine Corps Base Operations Support

Mr. Hutto: I think we all know that the original FY 1990 Marine Corps O&M budget request represented a significant reduction from FY 1989 levels and things were very tight. How can you come back here and justify an additional reduction of $11.8 million for base operations support when you were facing serious shortfalls to begin with?

General Carson: The $11.8 million reduction was the Marine Corps share of a total $272 million reduction within the Department of Defense for base operations support as part of the adjustment the Department made to meet the President's Revised Budget. Such a reduction will obviously further erode the bases capability to provide support to their tenant Fleet Marine Force units and the quality of life for resident Marines and their families. The reduction will be accommodated in such areas as:

- Personnel support equipment.

- Administrative services.

- General engineering support functions such as insect and rodent control, garbage and refuse collection, janitorial services, and replacement of fire fighting equipment.

- Decrease in maintenance service contracts on ADP equipment.

- Decrease in supply support functions such as preservation and packaging.

Marine Corps Base Operations Support

Mr. Hutto: If Congress were to find some additional budget authority for Marine Corps O&M, what cuts would you like to see restored?

General Carson: The Marine Corps' O&M appropriation contained a loss of program valued at $175 million prior to the Revised Budget Submission.

Listed below are the areas in order of priority to which we would restore funding if the budget authority became available.

	$MILLIONS	
Other Base Operations	$11.8	
Marine Air/Ground Task Force Training	19.3	
Fleet Marine Force Unit Activations	1.6	
Depot Maintenance	8.0	
Fleet Marine Force Maintenance/Replenishment	9.3	
Subtotal		50.0
Fleet Marine Force Unit Activities	6.7	
Depot Maintenance	5.0	
Fleet Marine Force Maintenance/Replenishment	3.0	
Initial Issue Equipment	2.8	
Maritime Prepositioned Ships Maintenance	7.5	
Maintenance of Real Property	25.0	
Subtotal		50.0
Marine Air/Ground Task Force Training	5.9	
Fleet Marine Force Maintenance/Replenishment	5.9	
Other Base Operations	26.7	
Combat Support ADP Software	5.0	
Supply Depot Operations	3.0	
Maintenance of Real Property	3.5	
Subtotal		50.0
TOTAL		150.0

RC SPECIAL TRAINING

Mr. Hutto. Sec Cheney's statement last week said that savings were achieved by adjusting scheduled special training of Guard and Reserve personnel. Please explain what these proposed changes are and how they will impact on reserve training.

General Robles. Special training includes pay and allowances, travel, and per diem of Guard and Reserve personnel on tours of special training in an active duty status. The ARNG special training account was decremented by $4.0 million in FY 90 and $9.0 million in FY 91. The USAR special training account was decremented by $2.0 million in FY 90 and $5.0 million in FY 91.

The Amended FY 90/91 Budget will have an impact on unit training activities such as Overseas Deployment Training, CONUS Exercises, New Equipment Training, and Command and Staff visits to subordinate units. Although the schools accounts which support major issues in the RC Training Strategy were protected, some individual training programs such as the Key Personnel Upgrade Program (ARNG) and the Individual Training and Evaluation Program will be affected by the decrements in the special training accounts.

The Army's ability to support overseas CINCs will be affected by the reduction in funding for Overseas Deployment Training. The ARNG and USAR units will not be able to fully support JCS Exercises with command and control cells from RC CAPSTONE units. The Battle Book program, which is designed to deploy key personnel to overseas theaters to develop unit warplans, will be curtailed in FY 90 and 91 due to funding decrements. The Army has deployed an average of 49,000 RC soldiers per year from FY 87-FY 89. The decrement will result in decreased participation levels of RC soldiers by approximately 1,500 in FY 90 and 3,500 in FY 91.

The other special training programs will be decreased by an average of 4% in FY 90 and 9% in FY 91.

FORCE REDUCTION

Mr. Hutto. The major force reduction for the Army was the elimination of 7900 personnel spaces in connection with the INF Treaty. It is our understanding that the Army elected to retain one half of those spaces in Europe and, instead wants to inactivate a brigade at Fort Carson. Please explain the Army's rationale for retaining some troops in Europe while cutting troop strength here at home. What are the O&M savings attributable to the Fort Carson inactivation and are they offset by retaining the troops in Europe?

General Robles. To establish the Army's rationale for approaching force structure reductions mandated by DoD, we looked at the threat, strategy, and available resources. Based upon this work and the size of the mandated force structure reduction, we determined we must do the following: maintain our forward deployed, deterrent forces; avoid cuts in our contingency and special operations forces; and avoid building "hollow units" by thinning out unit structure. Based upon this, the Army concluded that force structure reductions would be accomplished by inactivating units. The units most vulnerable to inactivation were the reinforcing divisions based in the United States.

The recently concluded INF Treaty provided an opportunity to use those spaces to accomplish part of the force structure reductions. That is, spaces associated with INF-related units were possible candidates for use by the Army to achieve its mandated force structure reduction.

The Army determined that the force structure reduction would have to be split between forces in Europe and the United States. The reason for this was that the total DoD mandated force structure reduction (7929 spaces) exceeded the total number of INF-related spaces in Europe (6356 spaces). In focusing upon the European part of the force structure reduction, the Army determined that maintaining ready and fully structured forces in Europe precluded the removal of all 6356 spaces. A portion of these, approximately 2900 spaces, were retained to create an opposing force and operations group for a Combat Maneuver Training Center at Hohenfels, Germany; repair unit design deficiencies; and upgrade undermanned CS/CSS units. As a result of this, the Army identified 3481 spaces from European-based troop units to apply to the 7929 space total.

In order to achieve the total number of remaining spaces, the Army focused upon the reinforcing group of forces based in the United States. The 4th Infantry Division (Mechanized) is the only divisional-sized unit organized with three active component brigades in this group. Due to the size of the force structure reduction and the amount of spaces needed to meet it, the Army decided to inactivate one of the 4th Infantry Division (Mechanized)'s active component brigades. Inactivating one brigade and establishing a brigade roundout relationship had the least impact upon the risk associated with the Army's ability to deter and fight or respond to crises. Furthermore, this course of action maintained the Army's strategic flexibility by retaining 18 active divisions and maintained the integrity of the United States' M+10 requirement to NATO.

All of the 4th Infantry Division (Mechanized) units and reinvested INF-related spaces were fully funded in the budget submitted in January 1989. The Army was directed to reduce its force structure by 7929 spaces in FY 90. The total savings of this reduction over the FY 90-94 FYDP is $1.021 billion. O&M savings are not the major element of the total funding reduction attributable to this issue. The overwhelming majority of the savings result from reducing the military pay accounts which are relatively insensitive to geographic location. Resources from both the European and 4th Infantry Division (Mechanized) reductions were not reapplied within the Army. They contributed to the overall DoD reduction.

FORCE READINESS

Mr. Hutto. The intial Army request has as one of its priorities to maintain essential Force Readiness and, in fact, the Army appeared to protect the O&M Account. In the revised request the Army is reducing the O&M account more than the other Services. What happened in the last few months to cause the Army to change its priorities and make these large O&M reductions?

General Robles. The Army reduced its overall program within the same priorities that its developed the previous Budget. None of the priorities are absolute and it's essential that overall balance be maintained. The Army must have a balanced program that supports a force capable of executing the national strategy. The maintenance of essential force readiness is one of the Army's top priorities, but protecting essential sustainability, modernization, and minimizing force structure impacts are also key priorities. The revised budget has balanced all these priorities and, it has still protected essential force readiness. Active Army forces will train at an OPTEMPO of 800 miles for FY 90 and 91 with Reserve and Guard Units at comparable levels. The Army is fully committed to the maintenance of essential force readiness.

BASE OPERATIONS

Mr. Hutto. In reducing its Base Operations account the Army eliminated growth for its Field Feeding System, Child Care and other Community Programs. What was the total reduction in this area and how will it effect each of these programs?

General Robles. Reductions to Base Operations were made reluctantly to meet Department of Defense out-lay decrements. The Army made a conscious effort to avoid reducing Base Operations, retaining moderate growth while other OMA programs were reduced to a point of negative growth. The total reduction, $80 million in FY 90 and $105 million in FY 91, was applied to Field Feeding and Community and Morale Support areas based on the growth retained in these areas. In the food service area, elimination of the programmed growth will limit capability to fully implement, by end FY 90, conversion of garrison dining facilities to contract operations and/or augmentation with direct hire civilians to offset reductions in military cook strengths. The elimination of growth to Community and Morale Support programs will eliminate programmed civilian growth to provide community services support and will require increased use of military personnel to maintain community services and morale support programs at minimum acceptable levels. Hours of operation will be reduced and soldiers will be charged more for services provided and use of facilities.

FLIGHT TRAINING

Mr. Hutto. The Army proposes some reductions in flight training. What is the type and level of this reduction?

General Robles. The Army reduced funding for flight training by $1.4 million in FY 1990 and $3.1 million in FY 1991. These reductions were made possible by adjustments made to aircraft fielding schedules, and force structure decisions involving aviation units. These related actions will have the effect of requiring fewer pilots to be trained in each of the budget years.

REAL PROPERTY MAINTENANCE/BASE OPERATING SUPPORT

Mr. Hutto: In the revised FY 90 budget reductions totaling $260 million are made to real property maintenance and base operations support. The explanation provided is that these reductions will be effected through the development and application of management efficiencies. Could you provide the subcommittee with some examples of the type efficiencies the Air Force is planning to implement to generate efficiencies of this magnitude?

General Finan: The following examples reflect some of the actions the Air Force plans to implement to live within constrained funding:

- stretch out repair/maintenance replacement cycles including:
  - --repavement of roads and airfields
  - --vehicle maintenance
  - --repainting of buildings
  - --reroofing of buildings
  - --replacement of dorm furnishings
  - --replacement of administrative support equipment
- decrease funds available for minor construction projects so that only highest priority projects are funded, some work place efficiency improvements will be deferred
- reduce contracted food service scope of services
- lengthen schedules for inspection and maintenance of central heating and air conditioning equipment
- reduce civilian utilization rate from 98% to 96%
- decrease amount of asbestos mitigation projects
- reduce funds to meet EPA timelines for monitoring and repairing underground storage tanks
- postpone some large scale infrastructure upgrades

Mr. Hutto: Reductions in the FY 1990 revised budget totaling $26 million were made to the O&M account because of reduced civilian workyear utilization rates.

Could you explain this reduction fully?

General Finan: The civilian utilization rate in FY 1990 was reduced by approximately one half of one percent for this reduction. The utilization rate was minimally affected and an acceptable level of effort can be maintained without critically impeding program accomplishment.

It is important to remember that this cut is only part of the overall civilian utilization rate reduction from 98% to 96%.

Second Destination Transportation

Mr. Hutto: In the Revised Budget, Second Destination Transportation costs have been increased by $11 Million. This is in addition to $21.5 Million increase in the initial budget.

Will these increases eliminate the backlog of items waiting to be shipped?

General Finan: The SDT (Second Destination Transportation) shortfalls caused by funding constraints will continue in the FY90-91 budget. The FY90 revised Transportation budget request represents an increase of $33.5 million over the FY89 current estimate. Of this, $15.4 million is for Industrial Fund rate changes and other inflation changes. The remaining $18.1 million represents real growth to start bringing the SDT backlog back to a reasonable level. The First and Second Destination Transportation programs are now funded to 90 percent of total requirements. One aspect of the ten percent funding shortfall is SDT backlogs (i.e. outright deferral of SDT shipments), which have been budgeted to decrease from FY88 ($16.9 million) and FY89 (approximately $20 million) to approximately $10 million per year in FY90 and FY91.

Engineering Data Computer Assisted Retrieval System - #2

Mr. Hutto: The revised budget includes $3.5 million for modification of the Engineering Data Computer Assisted Retrieval System (EDCARS) to make existing hardware capable of accepting engineering data in the DOD standardized digital format.

According to information provided by the Air Force Logistics Command to the General Accounting Office this system was 100% operational in July 1988. If this is the case, why is this money needed?

General Finan: The Engineering Data Computer Assisted Retrieval System is operational at each Air Logistics Center (ALC). EDCARS attained initial operating capability in October 1986, and full operational capability in October 1987. The system is being used for its designed purpose, the efficient storage and timely retrieval of engineering data.

In the early 1980's when EDCARS first was planned, engineering data was received on aperture cards and stored in bins. When a drawing was required, it had to be manually retrieved from the bin. The purpose of EDCARS was to automate this manual storage and retrieval process. Receipt of engineering data in digital form was not part of the EDCARS design.

The requirement to accept data in digital form developed separately. DOD wanted to improve the efficiency of future data delivery while achieving interoperability among services. The first step was the development of a DOD standard for the format in which the data would be delivered. In July 1987, DOD made the basic format decision. Once that had been done, the Air Force began to look for the most appropriate technical solution to make EDCARS capable of accepting future data in the new DOD format. The $3.5 million, identified in the FY 90 budget request, is to upgrade EDCARS to accept engineering data in the standard digital form.

Expense/Investment Criteria

Mr. Hutto: The revised budget request transfers $46.2 million in FY 90 funds from O&M to Other Procurement. The explanation given is this was done because of FY 88 Congressional guidance that expense/investment determinations be applied on a total system cost basis. The application of the Congressional guidance does not require the transfer of funds. This is properly an expenditure that should be made with Other Procurement funds. Please provide us with a description of the systems being procured with these funds. I presume this is a one time transfer and it will not be required after FY 1991.

General Finan: The transfer from O&M to Other Procurement in the Amended FY 90/91 Budget was a one time realignment of funds. Identifying all systems impacted by this policy change was a long and difficult process. We were able to include, in the initial FY 90/91 President's Budget, all systems affected by the change with the exception of those in the electronics and telecommunications programs. The volume and complexity of systems in this area made it a difficult and time consuming task to quantify total effect of the change in these programs. As a result, funding for these programs was included in the O&M data presented in the initial FY 90/91 President's Budget. Once the impact assessment was completed, action was taken to realign the necessary amount of funding from O&M to Other Procurement in the Amended FY 90/91 Budget. The $46.2M realigned in FY 90 was primarily for the: Base Information Digital Distribution System (BIDDS), Core Automated Maintenance System (CAMS), Cargo Movement Operations System (CMOS), and the Personnel Concepts III (PC-III) System.

Mr. Hutto: The amended FY '90 Budget reduces the Air Force Reserve authorization by $2.8 million and the Air National Guard authorization by $14.6 million. In view of the increased responsibilities of the Guard and Reserve, how does the Air Force justify these reductions?

General Finan: The majority of the Guard reductions occurred in two categories: Real Property Maintenance, and Support and Base Communications. These reductions correspond to a pro rata share of overall Air Force reductions in the same areas. This funding level is in-line with the FY '89 baseline.

The FY '90 Air Force Reserve reduction of $2.8 million is related to two force structure adjustments as six F-16 aircraft are being restored at Tinker AFB, Oklahoma, as directed by the FY 1989 Appropriations Act ($+1.4 million) and the WC-130 Weather Reconnaissance unit at Keesler AFB, Mississippi, was planned for deactivation the end of FY '89 ($-3.2 million). Real Property Maintenance funds ($-1.0 million) were reduced to reflect the Air Force Reserve share of a total Air Force reduction.

Merged Surplus and Merged ("M") Accounts

Mr. Hutto: Within the last few months there has been some discussion concerning the Merged Surplus and "M" accounts maintained by DoD and the Military Departments. A March 1987 General Accounting Office report states that at the end of September 1985, DoD's Merged Surplus Authority and "M" account balances were $25.5 billion and $6.3 billion, respectively. Recent articles in the Press estimate the size of these accounts to range from $30 billion to more than $100 billion.

What are the current balances in these accounts?

How were these funds accumulated and what have they been used for?

For what purposes will they be expended in the future?

General Robles. The balances as of 30 September 1988 in the merged surplus and "M" accounts for Army are shown below (dollars in thousands):

BASIC SYMBOL	TITLE	MERGED SURPLUS AUTH	"M" ACCOUNT
2010	MIL PERS, ARMY	2,139,508	26,648
2060	NG PERS, ARMY	795,077	52,791
2070	RES PERS, ARMY	663,440	2,463
2020	OPER & MAINT, ARMY	4,430,663	1,188,335
2080	OPER & MAINT, AR	89,089	9,958
2065	OPER & MAINT, ANG	195,709	59,092
1705	NBPRP, ARMY	946	31
2087	SUMMER OLYMPICS	143	1,628
2031	AIRC PROC, ARMY	185,598	206,707
2032	MISS PROC, ARMY	286,065	218,507
2033	PROC OF WTCV, ARMY	487,807	345,042
2034	PROC OF AMMO, ARMY	396,556	210,454
2035	OPA, ARMY	296,287	391,936
2036	ANG EQUIP	3,018	3,826
2030	PEMA, ARMY	44,553	3
2040	RDT&E, ARMY	204,268	288,044
2050	MILCON, ARMY	25,464	30,815
2085	MILCON, ANG	751	879
2086	MILCON, AR	1,657	28
0702	FAM HSG, ARMY	115,474	36,747
1080	MIL ASST PROGRAM	35,510	2,542
1081	INT MIL EDUC & TRNG	14,353	1,437
1087	MIL ASST PROGRAM	718	0
TOTAL ARMY APPROPRIATIONS		$10,412,654	3,077,913

The Army receives a variety of appropriations with differing periods of availability. For example, operation and maintenance appropriations are available for obligation for a 1-year period; procurement appropriations are generally available over a 3-year period.

Once obligated, authority to spend obligated funds exists until obligations are liquidated. At the end of the period of obligational authority, unobligated balances of the appropriation which retain their fiscal year identity for 2 years revert to Treasury.

At the end of the 2-year period, any obligated balance remaining which has not been liquidated (that is, an obligation which has not been paid) is transferred to a merged or "M" account maintained by the Army. This account accumulates unliquidated obligation balances from all prior appropriations made for the same purpose, such as O&M, procurement, etc. Once the balance is transferred to the "M" account, the fiscal year identity is no longer maintained for expenditure purposes.

After the expiration of the period of obligational availability of an appropriation, the unobligated balance is designated as surplus authority. At the end of the subsequent 2-year period, the balance is transferred to a merged surplus authority account which accumulates unobligated balances. Once unobligated balances enter the merged surplus authority account, Treasury no longer maintains the fiscal year identity of the appropriation.

The balances in the surplus authority, merged surplus authority and "M" accounts are available for specified purposes. Surplus authority balances are available to cover adjustments to obligations during the 2-year period after the obligation authority of the appropriation expires (e.g., for claims, price changes, within scope changes, severance pay and unrecorded obligations). Merged surplus authority balances are also available for restoration to the "M" account to cover obligation increases. Balances in the "M" account remain available indefinitely for payment of obligations.

Since the merged surplus authority and "M" accounts accumulate unobligated balances of, and unliquidated obligations against, Army appropriations over many years, the balances have become quite substantial.

Within the last few months there has been some discussion concerning the merged surplus and "M" accounts maintained by DOD and the military departments. A March 1987 General Accounting Office Report states that at the end of September 1985, DOD's merged surplus authority and "M" account balances were $25.5 billion and $6.3 billion, respectively. Recent articles in the press estimate the size of these acocunts to range from $30 billion to more than $100 billion.

Mr. Chairman: What are the current balances in these accounts?

Admiral Walsh: The current Department of the Navy "M account" balances are shown below. For explanatory purposes it should be noted that there are two distinctly different portions of the merged accounts. The first is called the "merged surplus" account which represents the current unobligated balance of the appropriation. These funds are only available to fund valid obligation adjustments made subsequent to expiration of the appropriation. The second is called "merged (m)" account which represent the current balance of valid unpaid (unliquidated) obligations incurred while the appropriation was legally available for obligation plus valid obligation adjustments after the appropriation expired.

DEPARTMENT OF THE NAVY
SUCCESSOR "M" ACCOUNT
AS OF 30 SEPTEMBER 1988
(Dollars in Thousands)

	Unliquidated Obligations	Merged Surplus Account
MILITARY PERSONNEL		
1453 - MILPERS, NAVY	39,478	1,364,814
1105 - MILPERS, MC	8,181	969,059
1405 - RESPERS, NAVY	5,432	291,006
1108 - RESPERS, MC	1,206	144,567
SUBTOTALS	54,297	2,769,446
OPERATION AND MAINTENANCE		
1804 - O&M, N	2,135,257	1,670,430
1106 - O&M, MC	142,045	401,760
1806 - O&M, NR	62,445	132,164
1107 - O&M, MCR	4,867	17,028
SUBTOTALS	2,344,614	2,221,382
PROCUREMENT		
1506 - APN	1,425,124	674,968
1507 - WPN	569,213	316,756
1611 - SCN	1,041,924	896,029
1810 - OPN	787,610	391,946
1109 - PMC	320,180	132,440
1505 - PROC. OF ACFT & MISSILES, N	42,311	96,713
SUBTOTALS	4,186,362	2,508,852
RESEARCH, DEVELOPMENT, TEST & EVAL		
1319 - RDT&E, N	675,629	177,848
MILITARY CONSTRUCTION		
1205 - MILCON, N	16,536	5,236
1235 - MILCON, NR	72	99
SUBTOTALS	16,608	5,335
FAMILY HOUSING		
0703C - FAMILY HOUSING, N & MC	70,474	91,539
GRAND TOTALS	7,347,984	7,744,402

Mr. Chairman: How were these funds accumulated and what have they been used for?

Admiral Walsh: The "merged surplus" accounts or amounts available for restoration are accumulated from unobligated balances at the time of expiration of the period that the appropriation was legally available for obligation plus deobligations as a result of liquidation of obligations and obligation cancellation. The "merged (m)" accounts are the value of accumulated valid unpaid (unliquidated) obligations incurred while the appropriation was legally available for obligation plus valid obligation adjustments after the appropriation expired. The latter consists of obligations incurred during the period the appropriation was legally available for obligation but advice of which was not received before the closing of the ledgers, and "within scope" amendments to obligations incurred prior to the time the appropriation expired. Since 1984, the valid unpaid obligations include adjustments for the Shipbuilding and Conversion, Navy appropriation as legal authority exists to incur new obligations to complete construction of ships. Similar legislation allows the Operation and Maintenance, Navy and Navy Reserve appropriations to incur obligations for changes in the scope of ship overhauls, maintenance and repair.

The "merged surplus" accounts or amounts available for restoration are used for valid obligation adjustments after the appropriation has expired. The "merged (m)" accounts represent valid obligations incurred while the appropriation was legally available for obligation (undelivered orders/accounts payable) plus valid obligation adjustments after the appropriation expired. These funds were not available for new obligations with the exception of the Shipbuilding and Conversion, Navy appropriation where legal authority has existed since 1984 to incur new obligations to complete construction of ships.

Mr. Chairman: For what purposes will they be expended in the future?

Admiral Walsh: The "merged surplus" accounts or amounts available for restoration will be used for valid obligation adjustments after the appropriation has expired. The "merged (m)" accounts represent valid obligations incurred while the appropriation was legally available for obligation (undelivered orders/accounts payable) plus potential valid obligation adjustments after the appropriation expired. These funds are not available for new obligations with the exception of the Shipbuilding and Conversion, Navy appropriation where legal authority has existed since 1984 to incur new obligations to complete construction of ships.

Mr. Hutto: Within the last few months there has been some discussion concerning the merged surplus and "M" accounts maintained by DoD and military departments. A March 1987 general accounting office report states that at the end of September 1985, DoD's merged surplus authority and "M" account balances were $25.5 Billion and $6.3 Billion, respectively. Recent articles in the press estimate the size of these accounts to range from $30 billion to more than $100 billion. What are the current balances in these Accounts?

General Finan: Air Force balances as of 30 Sep 88 in the Merged Surplus Authority account and the "M" account are:

($ IN MILLIONS)

APPROPRIATION	MERGED SURPLUS AUTHORITY BALANCE	"M" ACCOUNT BALANCE
Military Personnel, AF	$ 1,439.8	-
Military Personnel, RES	233.8	.6
Military Personnel, NG	122.7	-
O&M, Air Force	1,129.7	1,025.3
O&M, Reserve	73.8	6.2
O&M, National Guard	225.3	8.4
Aircraft Procurement	1,716.5	1,598.1
Missile Procurement	299.1	537.8
Other Procurement	436.4	374.1
RDT&E	283.1	560.9
Family Housing Construction	-	25.7
Military Construction, AF	25.6	3.8
Military Construction, NG	.5	3.3
Military Construction, RES	.1	.4
Family Housing, O&M	74.7	37.6
Military Assistance, EXEC	9.5	.9
International Mil EDUC & TRNING	7.4	1.1
	$ 6,078.0	$ 4,184.2

Mr. Hutto: How have these funds accumulated and what have they been used for?

General Finan: In 1956, Congress enacted legislation that passed the responsibility for making payments from lapsed appropriations from the GAO to individual federal agencies. Thus, the merged surplus authority and "M" accounts were established. The current balances in these accounts represent cumulative unobligated and unliquidated balances for all Air Force appropriations since FY 1956 that have expired prior to 1 Oct 86.

"M" account funds can be used only to liquidate obligations properly made or chargeable before the appropriation's expiration. Factors that contribute to the "M" account balance are (1) the Antideficiency Act which requires the Air Force to reserve sufficient funds in the "M" account to cover future liabilities and cost adjustments, (2) separation pay for foreign nationals, and (3) extended procurement lead time for new weapon systems. Amounts deobligated in the "M" account by law are transferred to the Merged Surplus Authority account because expired funds are not available for new obligations without specific legislation.

The Merged Surplus Authority account is legally available for restoration to the "M" account to cover valid upward adjustments to obligations (liabilities) incurred in fiscal year accounts that have lapsed. The Merged Surplus Authority account is a memorandum Treasury account and any legislation reducing its balance would have no impact on Treasury cash or deficit positions. If Congress were to authorize the use of this account to meet current funding requirements, that action would be considered new budget authority.

Mr. Hutto: For what purpose will they be expended in the future?

General Finan: "M" account funds can be used only to liquidate obligations properly made or chargeable before the appropriation's expiration and the Merged Surplus Authority account is only available for restoration to the "M" accounts. Examples of proper obligational adjustments to the "M" account are modification to a contract that is within scope, valid contractor claims, contract cost overruns, contract settlements, corrections, and contract overhead costs.

Mr. Lancaster: Installations and defense agencies across the country continually express their great frustration about the backlog of depot and real property maintenance, deferments of logistical support improvement programs and decreases in base operations support services. All of these areas are further reduced in the amended budget. This leaves the impression that 1) the budgeters have not been "in the field" for a long time and therefore don't understand the dire straits which exist there (or they have been there and ignore it), and 2) we are heading down a long road to making ourselves completely "unready" under the pretense of maintaining readiness. I would appreciate your comments on this trend with regard to how you intend to rectify the critical problems in the outyears when we don't seem to be able to get a grip on it now.

Mr. Flinn: Fiscal constraints in recent years have forced the Department to take aggressive steps to reduce Defense budget authority. R&D and procurement programs have been scaled down and military construction projects have been deferred. The Department has also reduced the cost of day-to-day operations.

In order to reduce the operation and maintenance costs, the Department has reduced the force structure by over 52,700 military end strength since the end of FY 1987. The Department has also decreased civilian manpower by almost 30,000 end strength. The Army has reevaluated its training strategy, increasing the use of simulator training and reducing the tempo of ground training operations planned for FY 1990/1991.

Reductions must also be made in the areas of base operations support. Resources for base operations support and real property maintenance (RPM) activities constitute approximately 19% of all operation and maintenance funding. Many of the programs in this category include controllable or variable rather than fixed costs (RPM, for example). For these types of programs, installation commanders must find more efficient ways of providing base level services and eliminate those programs with marginal paybacks in order to live within the funds available. These managers have met this challenge in the past and can be expected to do so in the future.

Foreign Currency

Mr. Lancaster: With regard to the reductions in foreign currency accounts which total $351 and $357 million, respectively, for FYs 90 and 91, are you still determining the exchange rate by simply using the rate available on the day you address the issue in the budget? If this is the case, what is the rationale for not considering some sort of economic forecast which might better serve budget purposes?

Mr. Flinn: Yes, the Department is still using foreign currency exchange rates experienced during the finalization of the budget request. The foreign currency exchange rates for the revised FY 1990/FY 1991 budget are based on exchange rates experienced in March 1989.

The rationale for doing this is since the Foreign Currency Fluctuations, Defense appropriation was established, the Congress has requested that the Department submit the budget based on exchange rates experienced during budget formulation. Thus, the Department does not attempt to project where the value of the U.S. dollar will be during execution. Given the variations that occur in the exchange rates over time, it would be extremely difficult, if not impossible, to predict more appropriate rates for a period of time beginning 10 and ending 22 months in the future.

Defense Management Support

Mr. Lancaster: Your testimony points out that reductions are being made in the Defense Management Support category, which includes contract efforts, ADP and office modernization. Which areas of contracting have been targeted for the most reduction? What do you foresee as the ensuing impact on contracting out of commercial activities?

Mr. Flinn: The Defense Management Support category of the Operation and Maintenance, Defense Agencies appropriation consists of those organizations which provide ancillary managerial and support functions to the Secretary of Defense. Contracting efforts impacted by the budget revision include those in OSD for the Joint Recruiting Advertising Program (JRAP) and studies and support services in the areas of defense policy, net assessment, acquisition management, force management, and reserve affairs. The Washington Headquarters Services (WHS) has reduced anticipated contracts related to ADP and office modernization efforts as well as the lease of additional office space to accommodate personnel displaced by renovation work at the Pentagon. The Defense Technology Security Administration (DTSA) will defer for a year implementation of the HI-TRAC 90 system which is designed to modernize the export license system throughout the DoD community.

The program for contracting out of commercial activities should not be adversely impacted by these budget reductions.

ADP and Office Modernization

Mr. Lancaster: ADP and office modernization typically imply increased efficiency and reduced costs, yet they have fallen victim to the budget knife. What is your opinion in this case: are we cutting off our nose to spite our face by not giving more priority to streamlining systems?

Mr. Flinn: I agree with the premise that well planned automation and office modernization programs are properly justified on the basis of increased efficiency and reduced costs. The Department continually tries to identify and provide for such efforts, and the current and recent year funding levels have reflected these initiatives. However, some automation and office modernization efforts have necessarily been reduced as a result of the need to meet the Department's budgetary objectives.

In arriving at a set of balanced budget reductions, higher priority must be given to the funding requirements that are immediate or directly support the operational forces. As a consequence, we do forgo or postpone lower priority indirect support requirements that would provide efficiencies or cost savings in the long run. The crux of the problem is in timing and whether the upfront investment can be afforded in competition with other immediate requirements. Although budgeting is imperfect, hopefully, the decisions made reflect the optimum use of resources that are available given the balance required of the total budget.

BACKLOG OF SUPPORT IMPROVEMENTS

Mr. Lancaster: Installations and defense agencies across the country continually express their great frustration about the backlog of depot and real property maintenance, deferments of logistical support improvement programs and decreases in base operations support services. All of these areas are further reduced in the amended budget. This leaves the impression that 1) the budgeters have not been "in the field" for a long time and therefore don't understand the dire straits which exist there (or they have been there and ignore it), and 2) we are heading down a long road to making ourselves completely "unready" under the pretense of maintaining readiness. I would appreciate your comments on this trend with regard to how you intend to rectify the critical problems in the outyears when we don't seem to be able to get a grip on it now.

General Finan:The O&M budget should not be viewed as a percentage of the total Air Force budget or as a function of the various procurement appropriations. Rather, the O&M budget is built each year based on the programmed force structure and operating activity levels and is priced to support the forces needed to meet our mission objectives. The budget summit agreement in FY 88 devastated the O&M account in both direct readiness and readiness support areas, and the Air Force planned a two year recovery. In FY 89, a conscious decision was made to emphasize funding for direct readiness. These increases were applied mainly in readiness areas such as flying hours and Depot Maintenance. In FY 90, the Air Force planned to increase funding in the readiness support areas. The Air Force has recognized the problems in logistics and support funding and has increased funding when possible. For instance, the AF added $11 Million and $21 Million in FY 90 and 91 respectively, to Second Destination Transportation , although Congress reduced the program by $5 Million in FY 89. Also, $129 Million was added to the Depot Maintenance program in FY 91. The original FY 90/91 PB also increased the funding in the remaining readiness support areas. However, readiness support is extremely difficult to define precisely because it involves everything related to the day-to-day operation of our bases. Readiness support includes contracts for operation of dining halls, equipment maintenance, and leasing of computer software; it includes all supplies and equipment, communications, utilities, and civilian pay necessary to operate the bases. This diversity makes readiness support an easy target for reductions because it is extremely hard to show the immediate impact of the reductions. For instance, Congress reduced the FY 89 budget in Base Operations by nearly $100 Million simply to reduce "growth" which the AF programmed to recover from FY 88. Further, our FY 90 recovery was not possible under the zero growth budget and the programmed growth was reduced by approximately $150 Million in both FY 90 and FY 91. In summary, the Air Force is well aware of the problems associated with readiness support and makes every effort to program funds in these areas. We also make every effort to explain the importance of these programs to avoid nonprogrammatic reductions. The bottom line is that we must maintain a fine balance between force structure, readiness, sustainability and modernization with constrained budgets, thus task becomes much more difficult.

FLYING HOURS

Mr. Lancaster: Your testimony states that the Air Force flying program has maintained hours per crew per month at the FY 89 congressionally enacted level. What is the Air Force position with regard to the adequacy of this level?

General Finan: Flying hours generate combat capability--the more we fly, the better we'll fight. We balance our request to fund flying hours with every other readiness program to maximize warfighting potency. Increasing flying hours, given a fixed budget, means we buy less of some other warfighting capability. For that reason, the FY 89-91 Air Force flying hour program has been set at the FY 87 level of activity. The FY 87 level and the resultant FY 89 congressionally enacted level provide the minimum flying hours necessary to train aviators to combat proficiency in their wartime mission taskings. Further reductions of flying hours, beyond those caused by force structure reductions, would decrease overall combat capability.

Mr. **Hutto**. Thank you very much. With that the subcommittee stands adjourned.

[Whereupon, at 2:15 p.m., the subcommittee was adjourned.]

○

98-274 (1696)